

OTAY WATER DISTRICT

BOARD OF DIRECTORS MEETING
DISTRICT BOARDROOM

2554 SWEETWATER SPRINGS BOULEVARD
SPRING VALLEY, CALIFORNIA

WEDNESDAY
February 7, 2007
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

CONSENT CALENDAR

5. ITEMS TO BE ACTED UPON WITHOUT DISCUSSION, UNLESS A REQUEST IS MADE BY A MEMBER OF THE BOARD OR THE PUBLIC TO DISCUSS A PARTICULAR ITEM:
 - a) APPROVE THE PURCHASE OF A 2008 MODEL YEAR STERLING 8500 TRUCK CAB AND CHASSIS FOR \$59,836.81 FROM TRANS-WEST FORD TRUCK SALES, INC
 - b) APPROVE AN ENGAGEMENT LETTER WITH THE AUDITING FIRM OF TEAMAN, RAMIREZ & SMITH, INC. TO PROVIDE AUDIT SERVICES TO THE DISTRICT FOR THE FISCAL YEAR ENDING JUNE 30, 2007
 - c) ADOPT RESOLUTION NO. 4093 OF THE BOARD OF DIRECTORS OF OTAY WATER DISTRICT FIXING TERMS AND CONDITIONS FOR THE ANNEXATION TO OTAY WATER DISTRICT IMPROVEMENT DISTRICT OF THOSE LANDS DESCRIBED AS "BRAZAN MOHEDIN SEWER ANNEXATION" (APN 498-340-37-00) AND ANNEXING SAID PROPERTY TO OTAY WATER DISTRICT IMPROVEMENT DISTRICT NO. 18

- d) APPROVE A REIMBURSEMENT TO BROOKFIELD SHEA OTAY, LLC FOR COMPLETED PROJECTS (CIP NOS. P2121, P2133, P2164, P2031, R2040 AND R2041) IN THE AMOUNT OF \$1,521,777.60
- e) REJECT ATOMIC INVESTMENTS CLAIM
- f) ADOPT RESOLUTION NO. 4094 ADOPTING POLICY NO. 49 - SERVICE TO AFFORDABLE AND LOW INCOME HOUSEHOLDS
- g) APPROVE THE ENGAGEMENT LETTER WITH THE LAW FIRM OF WILSON PETTY KOSMO & TURNER FOR LEGAL REPRESENTATION IN THE HARRON v. OTAY WATER DISTRICT MATTER

INFORMATION / ACTION ITEMS

6. ADMINISTRATION AND FINANCE

- a) ADOPT RESOLUTION NO. 4095 APPROVING THE LEGAL DOCUMENTS IN CONNECTION WITH THE ISSUANCE OF THE 2007 CERTIFICATES OF PARTICIPATION AND ESTABLISHING PARAMETERS FOR THE SALE THEROF (BEACHEM)

7. RECESS OTAY WATER DISTRICT BOARD MEETING

8. CONVENE OTAY SERVICE CORPORATION BOARD MEETING

- a) ADOPT RESOLUTION NO. 1005 APPROVING THE LEGAL DOCUMENTS IN CONNECTION WITH THE ISSUANCE OF THE 2007 CERTIFICATES OF PARTICIPATION AND ESTABLISHING PARAMETERS FOR THE SALE THEROF (BEACHEM) (BEACHEM)

9. ADJOURN OTAY SERVICE CORPORATION BOARD MEETING

10. RECONVENE OTAY WATER DISTRICT BOARD MEETING

11. BOARD INFORMATION / ACTION ITEMS

- a) DISCUSSION OF 2007 BOARD MEETING CALENDAR

REPORTS

12. GENERAL MANAGER'S REPORT

- a) UPDATE ON THE 30" RECYCLED WATER PIPELINE PROJECT (SEE ATTACHMENT "A")
- b) SAN DIEGO COUNTY WATER AUTHORITY UPDATE

13. DIRECTORS' REPORTS / REQUESTS

RECESS TO CLOSED SESSION

14. CLOSED SESSION

- a) CONFERENCE WITH LEGAL COUNSEL – PENDING LITIGATION [GOVERNMENT CODE §54956.9(a)]
 - (i) DONNA BARTLETT-MAY, et. al. v. OTAY WATER DISTRICT
 - (ii) RDH CHEMICAL COMPANY v. OTAY WATER DISTRICT

RETURN TO OPEN SESSION

- 15. REPORT ON ANY ACTIONS TAKEN IN CLOSED SESSION. THE BOARD MAY ALSO TAKE ACTION ON ANY ITEMS POSTED IN CLOSED SESSION.
- 16. ADJOURNMENT

All items appearing on this agenda, whether or not expressly listed for action, may be deliberated and may be subject to action by the Board.

If you have any disability which would require accommodation in order to enable you to participate in this meeting, please call the District Secretary at 670-2280 at least 24 hours prior to the meeting.

Certification of Posting

I certify that on February 2, 2007, I posted a copy of the foregoing agenda near the regular meeting place of the Board of Directors of Otay Water District, said time being at least 72 hours in advance of the regular meeting of the Board of Directors (Government Code Section §54954.2).

Executed at Spring Valley, California on February 2, 2007

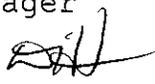


Susan Cruz, District Secretary



AGENDA ITEM 5a

STAFF REPORT

TYPE MEETING: Regular Board
SUBMITTED BY: Stephen Dobrawa, 
Purchasing Manager
Don Henderson, 
Construction Maintenance
Manager
APPROVED BY: Rom Sarno, Chief, Administrative Services 
(Chief)
APPROVED BY: German Alvarez,
(Asst. GM): Assistant General Manager, Administration and Finance
SUBJECT: PURCHASE OF STERLING 8500 CAB AND CHASSIS

MEETING DATE: February 7, 2007
W.O./G.F. NO: _____ DIV. NO. All

GENERAL MANAGER'S RECOMMENDATION:

That the Board authorize the purchase of a 2008 model year Sterling 8500 truck cab and chassis for \$59,836.81 from Trans-West Ford Truck Sales, Inc.

COMMITTEE ACTION: _____

See Attachment "A"

PURPOSE:

To provide bid results and obtain authorization to purchase a 2008 model year Sterling cab and chassis from Trans-West Ford Truck Sales in the amount of \$59,836.81.

ANALYSIS:

Included in the approved FY 2007 budget is a Sterling 8500 cab and chassis identified as Capital Item #122. In accordance with district policy, bids for this item were solicited and received as follows:

Vendor	Bid Amount
Miramar Truck Center	\$61,904.53
Peck Road Truck Center	\$60,914.31
Trans-West Ford Truck Sales	\$59,836.81

This vehicle will be used to replace an existing cab and chassis currently used as a maintenance utility truck. The exchanged cab and chassis will be fitted with a new stainless steel water tank and used to provide potable water during emergency and planned outages.

The budget for this purchase is \$52,500. It is anticipated that there will be sufficient saving within the Capital Purchases Budget to cover the \$7,336.81 difference.

Cost figures for this purchase were not available during the FY 2007 budget process. Manufactures had not yet finalized the production requirements needed to meet recently mandated changes by the Federal Environmental Protection Agency (EPA) and the California Air Resources Board (CARB) requiring that heavy on-road diesel vehicles be manufactured to meet target emission of hydro carbons, carbon monoxide, oxides of nitrogen, and particulate matter.

FISCAL IMPACT: ~~_____~~

The line item budget for Capital Item #122 is \$52,500. The purchase price of the vehicle is \$59,836.81. If approved, the cost of proposed purchase will exceed the item line budget by \$7,336.81.

The FY 2007 Capital Purchases Budget is \$324,650. Expenditures to date are \$27,912.25. It is anticipated that there will be sufficient savings to cover the purchase of the proposed vehicle and that purchases for FY 2007 capital purchases will not exceed the total budget amount.

While the District expects to save money on the purchase of the remaining vehicles, the purchase of Capital Item #111, a Ford F-150 pickup truck, budgeted at \$22,500, will be deferred if this does not occur.

STRATEGIC GOAL:

- 3.1.1.9: Operate the system to meet demand 24/7.
- 3.1.1.10: Meet all of the health-related water standards in the US National Primary Drinking Water Regulations

LEGAL IMPACT: _____

None.

Mark Watton
General Manager



ATTACHMENT A

SUBJECT/PROJECT:	PURCHASE OF STERLING 8500 CAB AND CHASSIS
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COMMITTEE ACTION:

The Finance and Administration Committee reviewed this item at a meeting held on January 24, 2007. The following comments were made:

- The purchase of the cab and chassis is a budgeted item within the CIP;
- The new cab and chassis will replace an existing cab and chassis which is currently used as a maintenance utility vehicle. The old cab and chassis will be fitted with a new stainless steel water tank and will be used to provide potable water during emergency and planned outages;
- Staff had budgeted \$52,500 for the purchase of this vehicle. Because of new mandates by the Federal Environmental Protection Agency (EPA) and California air Resources Board (CARB) which requires higher emissions standards for heavy on-road diesel vehicles, the truck cost has increased and exceeds the budget by \$7,336.81. Staff anticipates savings within the CIP budget to cover the cost difference. If savings on the remaining vehicles is not sufficient to cover the cost difference, staff will defer the purchase of a Ford F-150 pickup truck;
- The committee inquired if it was cost effective to explore natural gas fueled vehicles as opposed to diesel and it was indicated by staff that it wasn't a viable alternative because of the lack of fueling station infrastructure to support going to natural gas.;
- The committee indicated that if the Ford F-150 is needed during the current fiscal year, that staff should feel free to bring a request back to the board. Staff will re-review the district's needs and will present a request if needed.

Upon completion of the discussion, the Committee supported staff's recommendation and forwarding to the Board of Directors on the consent calendar.



AGENDA ITEM 5b

STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	February 7, 2007
SUBMITTED BY:	James Cudlip, Finance Manager	W.O./G.F. NO:	DIV. NO. All
APPROVED BY:	Joseph R. Beachem, Chief Financial Officer (Chief)		
APPROVED BY:	German Alvarez, Assistant General Manager (Asst. GM)		
SUBJECT:	Appointment of Auditor for Fiscal Year Ending June 30, 2007		

GENERAL MANAGER'S RECOMMENDATION:

That the Board approve an engagement letter from the auditing firm of Teaman, Ramirez & Smith, Inc. (TRS) to provide audit services to the District for the Fiscal Year Ending June 30, 2007.

COMMITTEE ACTION: _____

Please see Attachment A.

PURPOSE:

To retain the services of Teaman, Ramirez & Smith, Inc. to serve as the District's auditors for the Fiscal Year ending June 30, 2007.

ANALYSIS:

The District is required to retain the services of an independent accounting firm to perform an audit of the District's financial records each year. The Board has approved TRS as the District's auditors for the last three years (Fiscal Years 2004, 2005, & 2006). It is the District's practice to keep the same auditors for 3-5 years, with an annual renewal of the retainer.

Staff is recommending the appointment of Teaman, Ramirez & Smith, Inc. based on their knowledge of the District's operations and finances, their technical qualifications, and their performance as the District's auditors for the last three fiscal years. Also, in our successful efforts to prepare an award-winning Comprehensive Annual Financial Report (CAFR), staff has solicited the advice of TRS who has had significant experience in award-winning CAFR preparation.

The following is a tentative planning schedule for the major activities involved in completing the FY-07 financial audit:

- Mar-07: Audit planning meeting with auditors and Finance & Administration Committee
- May-07: Pre-audit (3 - 4 days).
- Aug-07: Year End Audit (4 - 5 days).
- Oct-07: Board presentation of audited financials.
- Nov-07: Completed CAFR.

FISCAL IMPACT:

The fee for auditing services and preparation of the State Controller's Report will not exceed \$26,000 for the Fiscal Year ending June 30, 2007. This is an increase of \$1,200 over last year's fee, consisting of 2 components: 1) Increase of \$500 (or 2%) for standard audit services; 2) \$700 fee for the new policy requirement to annually audit the investment procedures.

STRATEGIC GOAL:

Required by law.

LEGAL IMPACT:

None.



General Manager

Attachment:

- A) Committee Action Form



ATTACHMENT A

SUBJECT/PROJECT:	Appointment of Auditor for Fiscal Year Ending June 30, 2007
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COMMITTEE ACTION:

The Finance and Administration and Communications Committees reviewed this item at a meeting held on January 24, 2007. The following comments were made:

- o Teaman, Ramirez & Smith, Inc. has served as the District's auditors for the past three years and staff has been very happy with their work.
- o This year's audit fee will increase approximately \$1,200 which includes a \$500 increase to cover the auditing firm's internal cost increases (approximately a 2% increase over last year's fee) and \$700 to audit Otay's investment procedures as per the District's new policy requirement.
- o It was discussed that the grants received by the District (approximately \$500,000 from the Federal Government and \$3 million from the State) will also be reviewed as part of the audit.
- o Staff stated that it is a "Best Business Practice" to change auditors every three to five years and staff will be making a recommendation in a couple years to retain a new audit firm. It was noted that Teaman, Ramirez & Smith, Inc. are aware of this practice and understand the need to change auditors periodically.
- o Staff plans to present to the committee in March 2007 the Audit Plan for Fiscal Year 2007 for their review. It was discussed that as the members of the board will need to approve the audit, it would be helpful to be engaged from the beginning of the audit plan process similar to CWA's and Helix WD's audit sub-committees.

Upon completion of the discussion, the Committee supported staff's recommendation and forwarding to the Board of Directors on the consent calendar.



AGENDA ITEM 5c

STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	February 7, 2007
SUBMITTED BY:	David Charles, Public Services Manager <i>DC</i>	W.O./G.F. NO:	0210- DIV. 5 20.284 NO.
APPROVED BY: (Chief)	Rod Posada, Chief of Engineering <i>R Posada</i>		
APPROVED BY: (Asst. GM):	Manny Magana, Asst. GM Engineering & Operations <i>M Magana</i>		
SUBJECT:	Brazan Mohedin Sewer Annexation to ID 18		

GENERAL MANAGER'S RECOMMENDATION:

Approve Resolution No. 4093, for the annexation of the property of Brazan and Kathryn Mohedin to Improvement District No. 18 to provide sewer services.

COMMITTEE ACTION:

Please see Attachment "A."

PURPOSE:

The purpose of the proposed annexation is to provide sewer service to a parcel owned by Mr. and Mrs. Brazan Mohedin (APN 498-340-37-00).

ANALYSIS:

A written request and Petition signed by Mr. and Mrs. Mohedin has been received for annexation of APN 498-340-37-00 into Improvement District No. 18 for sewer service. The total acreage to be annexed is 0.54 acres. The property is within the sphere of Otay Water District and will be part of Improvement District No. 18 after the Board of Directors approves this request. The property is located at 1837 Shadow Knolls Place, in the city of El Cajon and County of San Diego.

FISCAL IMPACT:

[Signature]
The property owners will be charged \$10 per year for availability fees. A sewer annexation fee of \$4,778 will be collected at the time sewer service will be provided.

STRATEGIC GOAL:

Provide water service to meet increasing customer needs.

LEGAL IMPACT: _____

No legal impact.

Umark Watson
General Manager *UW*

Attachment A Committee Action
Attachment B Resolution No. 4093



ATTACHMENT A

SUBJECT/PROJECT:	Brazan Mohedin Sewer Annexation to ID 18 (APN 498-340-37-00)
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COMMITTEE ACTION:

The Engineering, Operations and Water Resources Committee reviewed this item at a meeting held on January 23, 2007. It was noted:

- That the property owner's septic system had failed and they are requesting annexation into the District's sewer system.
- This is a standard annexation and the parcel to be annexed is within the District's sphere of influence.
- Approval of this annexation will include this parcel of land into Improvement District 18.

Upon completion of the discussion, the Committee supported staff's recommendation and forwarding to the Board of Directors on the consent calendar.

Attachment B

RESOLUTION NO. 4093

A RESOLUTION OF THE BOARD OF DIRECTORS OF OTAY WATER DISTRICT FIXING TERMS AND CONDITIONS FOR THE ANNEXATION TO OTAY WATER DISTRICT IMPROVEMENT DISTRICT OF THOSE LANDS DESCRIBED AS "BRAZAN MOHEDIN SEWER ANNEXATION" (APN 498-340-37-00) AND ANNEXING SAID PROPERTY TO OTAY WATER DISTRICT IMPROVEMENT DISTRICT NO. 18 (WO 0210-20.284/DIVISION 5)

WHEREAS, the District has received a request from a property owner that has an interest in the land described in Exhibit "A," attached hereto, for annexation of said land to Otay Water District Improvement District No. 18 pursuant to California Water Code Section 72670 et seq.; and

WHEREAS, pursuant to Section 72680.1 of said Water Code, the Board of Directors may proceed and act thereon without notice and hearing.

NOW, THEREFORE, BE IT RESOLVED as follows:

1. A description of the area proposed to be annexed is set forth on a map filed with the Secretary of the District, which map shall govern for all details as to the area proposed to be annexed.
2. The purpose of the proposed annexation is to provide sewer service to the territory to be annexed.
3. The Board of Directors hereby finds and determines that the area proposed to be annexed to Otay Water District Improvement District No. 18 will be benefited thereby and that Otay Water District Improvement District No. 18 will also be benefited and not injured by such annexation because the

property to be annexed will benefit from the facilities in Improvement District No. 18 and the property already within the Improvement District will now have a larger base to finance the sewer improvements.

4. The Board of Directors hereby declares that the annexation of said property is subject to owner first meeting the following terms and conditions:

(a) That the owner for said annexation shall pay to Otay Water District the following:

- (1) Standard processing fee in the amount of \$656.00;
- (2) State Board of Equalization filing fees in the amount of \$300.00; and
- (3) All other applicable local or state agency fees.

(b) The property to be annexed shall be subject to taxation after annexation thereof for the purposes of the improvement district, including the payment of principal and interest on bonds and other obligations of the improvement district, authorized and outstanding at the time of annexation, the same as if the annexed property had always been a part of the improvement district.

5. The Board of Directors of the Otay Water District does hereby declare the property described in Exhibit "A" to be

annexed to Improvement District No. 18 of the Otay Water District.

6. The Board of Directors further finds and determines that there are no exchanges of property tax revenues to be made pursuant to California Revenue and Taxation Code Section 95 et seq., as a result of such annexation.

PASSED, APPROVED AND ADOPTED by the Board of Directors of the Otay Water District at a special meeting held this 7th day of February, 2007.

AYES:
NOES:
ABSTAIN:
ABSENT:

President

ATTEST:

District Secretary

EXHIBIT "A"

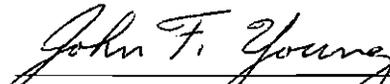
**LEGAL DESCRIPTION
APN-498-340-37
ANNEXATION PARCEL
OTAY WATER DISTRICT 1.D. 20**

ALL THAT PORTION OF THE NORTHEAST QUARTER OF SECTION 24, TOWNSHIP 16 SOUTH, RANGE 1 WEST, SAN BERNARDINO BASE AND MERIDIAN, IN THE COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO UNITED STATES GOVERNMENT SURVEY APPROVED SEPTEMBER 21, 1875, DESCRIBED AS FOLLOWS:

BEGINNING AT THE CENTER OF SAID SECTION 24, THENCE SOUTH 89°58'31" EAST ALONG THE EAST-WEST CENTERLINE OF SAID SECTION 24 A DISTANCE OF 163.00 FEET TO THE SOUTHWEST CORNER OF THE MAP OF SHADOW KNOLLS AS SHOWN ON MAP NO. 6033 FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY, STATE OF CALIFORNIA ON JANUARY 24, 1968 AS FILE NO. 13540; THENCE CONTINUING SOUTH 89°58'31" EAST ALONG SAID EAST-WEST CENTERLINE OF SECTION 24 AND SOUTHERLY LINE OF SAID MAP NO. 6033 A DISTANCE OF 457.00 FEET TO THE SOUTHWEST CORNER OF LOT 20 OF SAID MAP NO. 6033, SAID POINT BEING THE **TRUE POINT OF BEGINNING**; THENCE NORTH 12°30'00" EAST ALONG THE WESTERLY LINE OF SAID LOT 20 A DISTANCE OF 252.99 FEET TO THE NORTHWEST CORNER OF SAID LOT 20, SAID POINT BEING ON THE ARC OF A 175.00 FEET RADIUS CURVE CONCAVE NORTHERLY HAVING A RADIAL BEARING TO WHICH BEARS NORTH 30°16'58" EAST, SAID POINT ALSO BEING ON THE SOUTHERLY RIGHT OF WAY OF SHADOW KNOLLS PLACE AS SHOWN ON SAID MAP NO. 6033; THENCE EASTERLY ALONG THE NORTHERLY LINE OF SAID LOT 20 AND ARC OF SAID CURVE THROUGH A CENTRAL ANGLE OF 12°30'00" A DISTANCE OF 91.89 FEET TO THE NORTHEAST CORNER OF SAID LOT 20; THENCE SOUTH 7°00'00" WEST ALONG THE EASTERLY LINE OF SAID LOT 20 A DISTANCE OF 224.84 FEET TO THE SOUTHEAST CORNER OF SAID LOT 20 AND THE EAST-WEST CENTERLINE OF SAID SECTION 24; THENCE NORTH 89°58'31" WEST ALONG THE SOUTHERLY LINE OF SAID LOT 20 AND EAST-WEST CENTERLINE OF SAID SECTION 24 A DISTANCE OF 115.00 FEET TO THE **TRUE POINT OF BEGINNING**.

CONTAINING: 23,946 SQ. FT. 0.550 ACRES

REFERENCE IS MADE TO EXHIBIT "B" ATTACHED HERETO AND MADE A PART HEREOF.


JOHN F. YOUNG, P.L.S. 4665

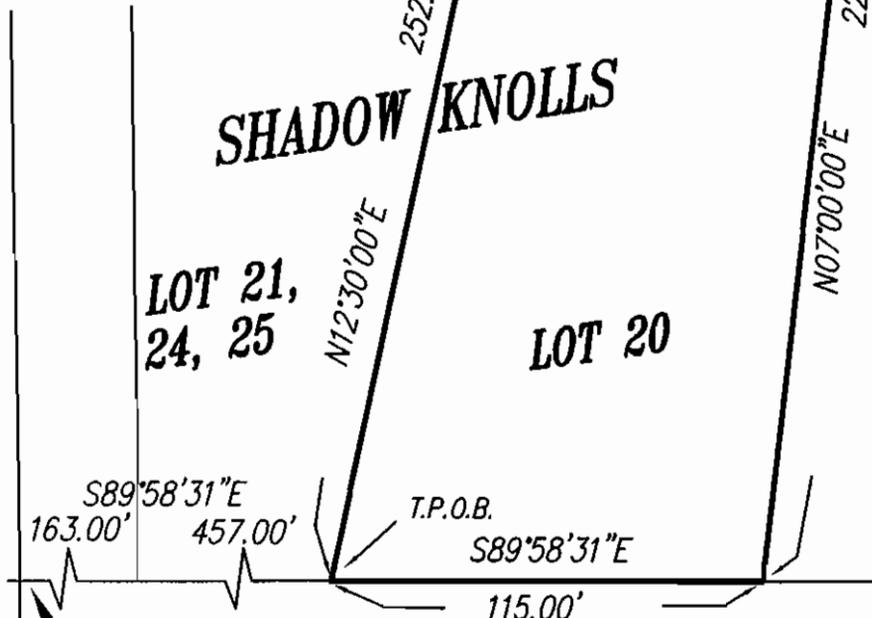
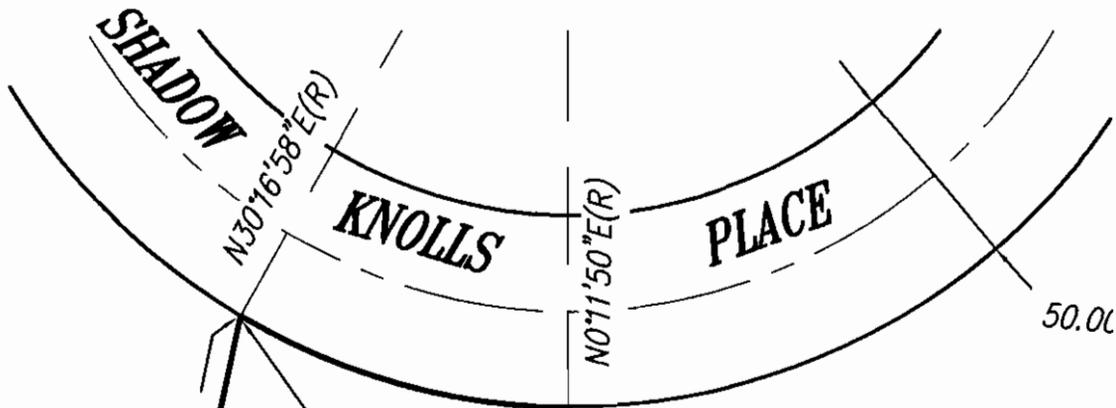
12/19/06
DATE



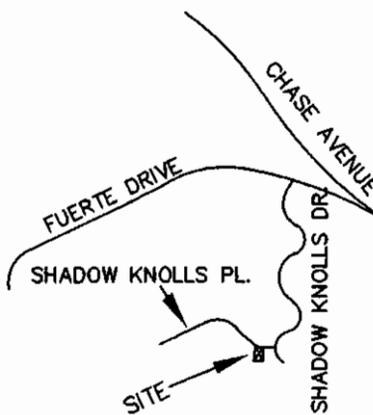
EXHIBIT 'B'
APN: 498-340-37



SCALE: 1"=40'



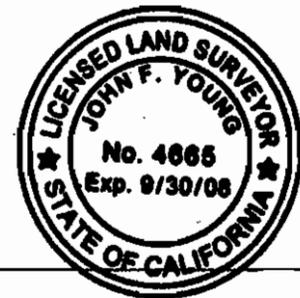
LOT 19
MAP NO. 6033



VICINITY MAP
 NO SCALE
 THOMAS BROS. 1271-J2

Center of Section 24, T.16S., R.1W., S.B.B.&M.
 S89°58'31"E 163.00' 457.00'
 T.P.O.B. S89°58'31"E 115.00'

John F. Young
 JOHN F. YOUNG LS 4665 12/18/06 DATE



OTAY WATER DISTRICT

LOT 20 OF THE MAP OF SHADOW KNOLLS PER MAP NO. 6033 FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY ON JANUARY 24, 1968 AS FILE NO. 13540.

		RECORDERS F/P _____	COORDINATES
		RECORDING DATE _____	MAP NO. 6033
		OTAY W.D. DEED NO. _____	SCALE: 1"=40'
		IMP. DIST. NO. <u>18</u>	DATE: 12-16-2006
			DRAWN BY: JFY
			W.O. NO: 0210-20.284
REV.	DATE	DESCRIPTION	

\\Engineering\E\Land Projects 2006\SCRATCH\dwg\TB_EXHIBIT.dwg 12/19/2006 10:39:23 AM PST

AGENDA ITEM 5d



STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	February 7, 2007		
SUBMITTED BY:	David Charles, <i>DC</i> Public Services Manager	W.O./G.F. NO:	9416,9537, 9540,9415, D0017-000006, D0017-000005	DIV. NO.	4
APPROVED BY: (Chief)	Rod Posada, <i>RP</i> Chief, Engineering				
APPROVED BY: (Asst. GM):	Manny Magaña, <i>M Magaña</i> Assistant General Manager, Engineering and Operations				
SUBJECT:	Reimbursement Request with Brookfield Shea Otay, LLC, for completed Capital Improvement Projects (CIP Nos. P2121, P2133, P2164, R2031, R2040, R2041) in the amount of \$1,521,777.60				

GENERAL MANAGER'S RECOMMENDATIONS:

That the District's Board of Directors approve the request to reimburse Brookfield Shea Otay, LLC, for completed CIP projects (CIP Nos. P2121, P2133, P2164, R2031, R2040, R2041) in the amount of \$1,521,777.60.

COMMITTEE ACTION:

Please see Attachment A.

PURPOSE:

To obtain Board authorization for the General Manager to reimburse the Brookfield Shea Otay, LLC, for work completed and associated with CIP Nos. P2121, P2133, P2164, R2031, R2040, and R2041. At the May 1, 2004 Board Meeting, the Board authorized the General Manager to enter into a Reimbursement Agreement with Brookfield Shea Otay, LLC, for the various pipeline capital improvements associated with Otay Ranch Village II Development (CIP Nos. P2121, P2133, P2164, R2031, R2041, and R2040).

ANALYSIS:

On May 3, 2004, the Otay Water District (District) entered into a Reimbursement Agreement with Brookfield Shea Otay, LLC (the "Reimbursement Agreement") for regional water facilities within the Otay Ranch Village II Development. CIP Nos. P2121, P2133, P2164, R2031, R2040, and R2041 were included within the Sub-Area Master Plan (SAMP) dated January 2002, and subsequently included in the Reimbursement Agreement.

Brookfield Shea Otay, LLC submitted its reimbursement request on November 1, 2006, along with the necessary invoices from the lowest responsive bidder for a total amount of \$1,721,915.48. After staff review, that amount was reduced to \$1,521,777.60. These projects were listed in the District's five-year CIP plans, as well as on the approved SAMP dated January 2002.

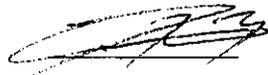
Staff used the following methodology to evaluate the reimbursement request submitted by Brookfield Shea Otay, LLC:

- (a) prepared a quantity take-off (see Attachment 1);
- (b) compared quantities and prices against the reimbursement requests (see Attachment 2).

After completion of the analysis, Staff prepared a spreadsheet to support its recommendation for reimbursement (see Attachment 3).

After reviewing the budget for the CIP projects included in the Brookfield Shea Otay, LLC request dated November 1, 2006, Staff compared with the budget for FY 07-08 and found that these projects had sufficient funds to be reimbursed.

FISCAL IMPACT:



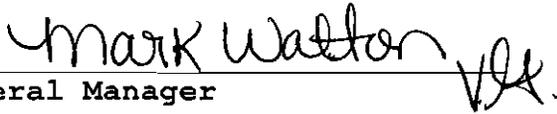
The approved budget for FY 07 (CIP Nos. P2121, P2133, P2164, R2031, R2040, R2041) is \$2,873,650.00. After staff evaluation of the invoices and quantity take off, the actual reimbursement to Brookfield Shea Otay, LLC will be \$1,521,777.60.

STRATEGIC GOAL:

This project supports the District's Strategic Goal of satisfying current and future potable and recycled water needs. The pipelines will transmit potable and recycled water to Central Area System market areas.

LEGAL IMPACT: _____

None.

Mark Watton 

General Manager

P:\WORKING\CIP W196\WO 8687\Staff Report\Brookfield Shea Otay, LLC, Reimburse Request, Feb 07 (DC).doc

Attachments:

- Attachment A Committee Action
- Attachment 1 Quantity Take-Offs for Hunte Parkway Reimbursement Agreement
- Attachment 2 Price Verification for Hunte Parkway Reimbursement Potable; Phase 1-3
- Attachment 3 Reimbursement Summary Sheet - Brookfield Shea Otay LLC

DC/RP:jf



ATTACHMENT A

SUBJECT/PROJECT:	P2121 (PL-16 Inch, 711 Zone, Hunte Parkway - Olympic/Eastlake), P2133 (PL - 16 Inch, 711 Zone, Eastlake Parkway - Olympic/Birch), P2164 (PL-20 Inch, 711 Zone, Eastlake Parkway), R2031 (REC PL-12 Inch, 944 Zone, Eastlake Parkway-Olympic/Birch), R2040 (REC PL-12 Inch, 680 Zone, Hunte Parkway-Olympic/Eastlake), and R2041 (REC PL-8 Inch, 944 Zone, Eastlake Parkway-Birch/Rock Mountain)
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COMMITTEE ACTION:

The Engineering, Operations and Water Resources Committee reviewed this item at a meeting held on January 23, 2007. The following comments were made:

- Staff indicated that the Board approved the original reimbursement agreement with Brookfield Shea Otay, LLC (Brookfield Shea) in 2004.
- Brookfield Shea submitted a reimbursement request on November 1, 2006 under the agreement in the amount of \$1,721,915.48. Staff thoroughly reviewed their request and recommends that the District reimburse Brookfield Shea \$1,521,777.60.
- The reimbursement covers three potable lines and three recycled lines located in the Otay Ranch Village II Development:
 - The potable lines are located within Olympic Parkway & Hunte Parkway and Olympic Parkway & Birch.
 - The recycled lines are located within Olympic Parkway and Rock Mountain & Birch.
- It was discussed that Brookfield Shea was provided copies of the "Reimbursement Summary Spreadsheets" (attached to this staff report) and they have agreed to the recommended reimbursement of \$1,521,777.60.

Upon completion of the discussion, the Committee supported staff's recommendation and forwarding to the Board of Directors on the consent calendar.

**QUANTITY TAKE-OFFS FOR
HUNTE PARKWAY REIMBURSEMENT AGREEMENT
POTABLE; PHASE 1 - 3**

CIP P2121 (W121) (WO# 9416, 9537, D0017-000006)

Contractors: TC Construction, Inc. / KTA Construction, Inc.

Item Description	BSO LLC Actual Quantity	Otay Quantity	BSO LLC Requests	Staff Recommendation
10" WATER MAIN	107	107	\$30.00	107
16" WATER MAIN	1096	1096	\$36.50	1096
16" TEE	1	1	\$6,300.00	1
16" BUTTERFLY VALVE	0	0	\$0.00	0
16"x 10" REDUCER	1	1	\$900.00	1
24"x 16" REDUCER	1	1	\$1,650.00	1
END CAP W/4" BLOW-OFF	1	1	\$700.00	1
4" AIR VAC.RELEASE VALVE	1	1	\$4,800.00	1
THRUST BLOCK	3	3	\$500.00	3
10" RESILIENT SEAT G.V.	1	1	\$1,500.00	1
CONNECT TO EXISTING STUB	1	1	\$4,600.00	1
FIRE HYDRANT/B.O.	1	1	\$3,950.00	1
8" WATER MAIN	105	105	\$23.00	105
16" WATER MAIN	3436	3436	\$37.00	3436
16" BUTTERFLY VALVE	4	4	\$3,500.00	4
END CAP W/4" BLOW-OFF	4	2	\$1,000.00	2
4" AIR VAC.RELEASE VALVE	4	4	\$5,700.00	4
THRUST BLOCK	12	11	\$100.00	11
8" RESILIENT SEAT G.V.	1	1	\$625.00	1
CONNECT TO EXISTING STUB	1	1	\$1,000.00	1
16"x 10"REDUCER	1	1	\$2,800.00	1
FIRE HYDRANT/B.O.	3	3	\$3,400.00	3
10" WATER MAIN	384	107	\$43.00	107
16" WATER MAIN	4065	4065	\$48.00	4065
16" BUTTERFLY VALVE	6	6	\$6,000.00	6
2" BLOW-OFF	2	2	\$300.00	2
4" BLOW-OFF	2	2	\$4,700.00	2
4" AIR VAC.RELEASE VALVE	3	3	\$7,000.00	3
10" RESILIENT SEAT G.V.	7	1	\$1,312.50	1
CONNECT TO EXISTING	5	1	\$650.00	1
THRUST BLOCK	6	4	\$300.00	4
FIRE HYDRANT W/BO	3	3	\$5,000.00	3

Approved By: David Charles Date: 1/2/2007

David Charles
Public Services Manager

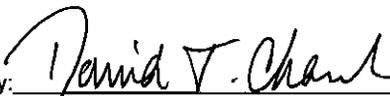
ATTACHMENT 1

**QUANTITY TAKE-OFFS FOR
EASTLAKE PARKWAY REIMBURSEMENT AGREEMENT
POTABLE; PHASE 1 - 3**

CIP P2133 (W133) (WO# 9540, 9415)

Contractors: TC Construction, Inc. / Burtech Pipeline, Inc.

Item Description	BSO LLC Actual Quantity	Otay Quantity	BSO LLC Requests	Staff Recommendation
16" WATER MAIN 711'Zone	1131	1131	\$38.00	1131
6" BLOW-OFF	1	3	\$4,000.00	1
4" AIR VAC.RELEASE VALVE	2	1	\$5,300.00	1
8" RESILIENT SEAT G.V.	1	1	\$1,100.00	1
20" BUTTERFLY VALVE	2	1	\$8,200.00	1
TEST STATION	0	1	\$0.00	0
TEMP END CAP W/ 4" BLOW-OFF	2	1	\$2,000.00	1
FIRE HYDRANT/B.O.	1	1	\$3,750.00	1
16" WATER MAIN 711'Zone	1191	1191	\$40.00	1191
4" BLOW-OFF	2	2	\$3,800.00	2
4" BLOW-OFF Temp.	1	1	\$1,800.00	1
4" AIR VAC.RELEASE VALVE	1	1	\$5,500.00	1
16" BUTTERFLY VALVE	2	2	\$3,000.00	2
16" TEE	1	1	\$1,600.00	1
2" BLOW-OFF	1	2	\$1,700.00	1
CONNECT TO EXISTING	1	1	\$3,000.00	1

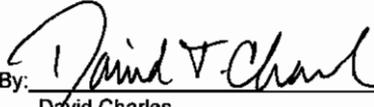
Approved By:  Date: 1/2/2007
 David Charles
 Public Services Manager

**QUANTITY TAKE-OFFS FOR
EASTLAKE PARKWAY REIMBURSEMENT AGREEMENT
POTABLE; PHASE 1 - 3**

CIP P2164 (W164) (WO# 9415, 9540)

Contractors: TC Construction, Inc. / Burtech Pipeline, Inc.

Item Description	BSO LLC Actual Quantity	Otay Quantity	BSO LLC Requests	Staff Recommendation
8" WATER MAIN 980'Zone	187	59	\$22.50	59
20" WATER MAIN 980'Zone	1123	1123	\$62.00	1123
TEMP END CAP W/ 4" BLOW-OFF	2	2	\$2,000.00	2
TEMP END CAP W/ 2" BLOW-OFF	1	1	\$650.00	1
TEST STATION	0	1	\$0.00	0
4" AIR VAC.RELEASE VALVE	2	1	\$5,300.00	1
8" RESILIENT SEAT G.V.	1	1	\$1,100.00	1
20" BUTTERFLY VALVE	2	2	\$8,200.00	2
END CAP	0	2	\$0.00	0
CONNECT TO EXISTING	1	1	\$4,850.00	1
FIRE HYDRANT/B.O.	1	1	\$3,750.00	1
12" WATER MAIN 980'Zone	60	60	\$39.00	60
20" WATER MAIN 980'Zone	1161	1161	\$54.00	1161
2" BLOW-OFF Temp.	1	1	\$1,700.00	1
4" AIR VAC.RELEASE VALVE	1	2	\$5,500.00	1
12" RESILIENT SEAT G.V.	2	2	\$1,350.00	2
20" BUTTERFLY VALVE	1	2	\$5,900.00	1
20"x 12" REDUCER	1	1	\$3,500.00	1
CONNECT TO EXISTING	1	1	\$3,000.00	1
END CAP	0	1	\$0.00	0
4" BLOW OFF	2	2	\$3,800.00	2
FIRE HYDRANT/B.O.	2	2	\$3,900.00	2

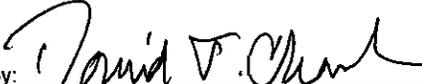
Approved By:  Date: 1/2/2007
David Charles
Public Services Manager

**QUANTITY TAKE-OFFS FOR
HUNTE PARKWAY REIMBURSEMENT AGREEMENT
RECLAIMED; PHASE 1 - 3**

CIP R2031 (R031) (WO# 9540, 9415)

Contractors: TC Construction, Inc. / Burtech Pipeline, Inc.

Item Description	BSO LLC Actual Quantity	Otay Quantity	BSO LLC Requests	Staff Recommendation
12" WATER MAIN 944' Zone	1338	1181	\$37.00	1181
2" BLOW-OFF	0	1	\$0.00	0
2" AIR VAC.RELEASE VALVE	1	1	\$2,500.00	1
12" RESILIENT SEAT G.V.	4	2	\$1,600.00	2
TEST STATION	0	1	\$0.00	0
TEMP END CAP W/ 2" BLOW-OFF	2	2	\$700.00	2
6" WATER MAIN	122	122	\$22.00	122
12" WATER MAIN	1141	1141	\$40.00	1141
2" BLOW-OFF	2	2	\$1,500.00	2
2" BLOW-OFF Temp.	1	1	\$1,000.00	1
2" AIR VAC.RELEASE VALVE	1	1	\$1,800.00	1
12" RESILIENT SEAT G.V.	1	1	\$1,300.00	1
6" RESILIENT SEAT G.V.	1	1	\$800.00	1
12"x 6" REDUCER	1	1	\$1,100.00	1
CONNECT TO EXISTING	0	1	\$1,500.00	0
END CAP	0	1	\$0.00	0

Approved By:  Date: 1/2/2007

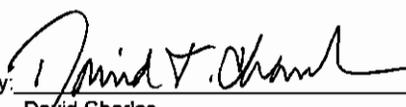
David Charles
Public Services Manager

**QUANTITY TAKE-OFFS FOR
HUNTE PARKWAY REIMBURSEMENT AGREEMENT
RECLAIMED; PHASE 1 - 3**

CIP R2041 (R041) (WO# 9540)

Contractors: Burtech Pipeline, Inc.

Item Description	BSO LLC Actual Quantity	Otay Quantity	BSO LLC Requests	Staff Recommendation
8" WATER MAIN	782	782	\$23.00	782
12" WATER MAIN	41	41	\$40.00	41
2" BLOW-OFF	1	1	\$1,500.00	1
2" BLOW-OFF Temp.	2	2	\$1,000.00	2
2" AIR VAC.RELEASE VALVE	1	1	\$1,800.00	1
12" RESILIENT SEAT G.V.	1	1	\$1,300.00	1
8" RESILIENT SEAT G.V.	1	1	\$900.00	1
12" CROSS	1	1	\$2,300.00	1
12"x 8" REDUCER	1	1	\$1,200.00	1
CONNECT TO EXISTING	0	1	\$0.00	0
END CAP	0	1	\$0.00	0
8" WATER MAIN	2729	2400	\$26.00	2400
2" BLOW-OFF	1	1	\$2,100.00	1
2" AIR VAC.RELEASE VALVE	1	1	\$2,600.00	1
8" RESILIENT SEAT G.V.	3	3	\$1,200.00	3
TEST STATION	0	1	\$0.00	0
END CAP	4	1	\$1,500.00	1

Approved By:  Date: 1/2/2007

David Charles
Public Services Manager

ATTACHMENT 1

**QUANTITY TAKE-OFFS FOR
HUNTE PARKWAY REIMBURSEMENT AGREEMENT
RECLAIMED; PHASE 1 - 3**

CIP R2040 (R040) (WO# 9416, 9537, D0017-000006)

Contractors: TC Construction, Inc. / KTA Construction, Inc.

Item Description	BSO LLC Actual Quantity	Otay Quantity	BSO LLC Requests	Staff Recommendation
12" WATER MAIN	1080	1080	\$39.00	1080
END CAP W/2" BLOW-OFF	1	1	\$675.00	1
2" AIR VAC.RELEASE VALVE	5	1	\$2,700.00	1
CONNECT TO EXISTING STUB	1	1	\$2,100.00	1
12" WATER MAIN	3387	3388	\$35.00	3387
END CAP W/2" BLOW-OFF	5	2	\$750.00	2
12" RESILIENT SEAT G.V.	3	3	\$1,700.00	3
2" AIR VAC.RELEASE VALVE	5	4	\$2,500.00	4
CONNECT TO EXISTING STUB	1	1	\$1,000.00	1
12" WATER MAIN	5284	4095	\$49.00	4095
6" RESILIENT SEAT G.V.	0	1	\$800.00	0
12" RESILIENT SEAT G.V.	0	2	\$5,850.00	0
2" AIR VAC.RELEASE VALVE	1	1	\$6,000.00	1
CONNECT TO EXISTING STUB	3	1	\$650.00	1

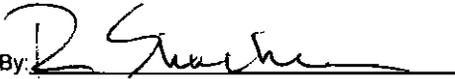
Approved By:  Date: 1/2/2007
David Charles
Public Services Manager

**PRICE VERIFICATION FOR
HUNTE PARKWAY REIMBURSEMENT AGREEMENT
POTABLE; PHASE 1 - 3**

CIP P2121 (W121) (WO# 9416, 9537, D0017-000006)

Contractors: TC Construction, Inc. / KTA Construction, Inc.

Item Description	BSO LLC Requests	Otay Verification	BSO LLC Actual Quantity	Comments
10" WATER MAIN	\$30.00	\$0.00	107	
16" WATER MAIN	\$36.50	\$36.50	1096	
16" TEE	\$6,300.00	\$6,300.00	1	
16" BUTTERFLY VALVE	\$0.00	\$0.00	0	
16"x 10" REDUCER	\$900.00	\$0.00	1	
24"x 16" REDUCER	\$1,650.00	\$0.00	1	
END CAP W/4" BLOW-OFF	\$700.00	\$700.00	1	
4" AIR VAC.RELEASE VALVE	\$4,800.00	\$4,800.00	1	
THRUST BLOCK	\$500.00	\$500.00	3	
10" RESILIENT SEAT G.V.	\$1,500.00	\$0.00	1	
CONNECT TO EXISTING STUB	\$4,600.00	\$4,600.00	1	
FIRE HYDRANT/B.O.	\$3,950.00	\$3,950.00	1	
8" WATER MAIN	\$23.00	\$0.00	105	
16" WATER MAIN	\$37.00	\$37.00	3436	
16" BUTTERFLY VALVE	\$3,500.00	\$3,500.00	4	
END CAP W/4" BLOW-OFF	\$1,000.00	\$1,000.00	4	
4" AIR VAC.RELEASE VALVE	\$5,700.00	\$5,700.00	4	
THRUST BLOCK	\$100.00	\$100.00	12	
8" RESILIENT SEAT G.V.	\$625.00	\$0.00	1	
CONNECT TO EXISTING STUB	\$1,000.00	\$1,000.00	1	
16"x 10"REDUCER	\$2,800.00	\$0.00	1	
FIRE HYDRANT/B.O.	\$3,400.00	\$3,400.00	3	
10" WATER MAIN	\$43.00	\$0.00	384	
16" WATER MAIN	\$48.00	\$48.00	4065	
16" BUTTERFLY VALVE	\$6,000.00	\$6,000.00	6	
2" BLOW-OFF	\$300.00	\$300.00	2	
4" BLOW-OFF	\$4,700.00	\$4,700.00	2	
4" AIR VAC.RELEASE VALVE	\$7,000.00	\$7,000.00	3	
10" RESILIENT SEAT G.V.	\$1,312.50	\$0.00	7	
CONNECT TO EXISTING	\$650.00	\$650.00	5	
THRUST BLOCK	\$300.00	\$300.00	6	
FIRE HYDRANT W/BO	\$5,000.00	\$5,000.00	3	

Reviewed By: 
Richard Shackley
Inspection Supervisor

Date: 12/28/06

ATTACHMENT 2

PRICE VERIFICATION FOR
EASTLAKE PARKWAY REIMBURSEMENT AGREEMENT
POTABLE; PHASE 1 - 3

CIP P2133 (W133) (WO# 9540, 9415)

Contractors: TC Construction, Inc. / Burtech Pipeline, Inc.

Item Description	BSO LLC Requests	Otay Verification	BSO LLC Actual Quantity	Comments
16" WATER MAIN 711'Zone	\$38.00	\$38.00	1131	
6" BLOW-OFF	\$4,000.00	\$4,000.00	1	
4" AIR VAC.RELEASE VALVE	\$5,300.00	\$5,300.00	2	
8" RESILIENT SEAT G.V.	\$1,100.00	\$0.00	1	
20" BUTTERFLY VALVE	\$8,200.00	\$8,200.00	2	
TEST STATION	\$0.00	\$0.00	0	
TEMP END CAP W/ 4" BLOW-OFF	\$2,000.00	\$2,000.00	2	
FIRE HYDRANT/B.O.	\$3,750.00	\$3,750.00	1	
16" WATER MAIN 711'Zone	\$40.00	\$40.00	1191	
4" BLOW-OFF	\$3,800.00	\$3,800.00	2	
4" BLOW-OFF Temp.	\$1,800.00	\$1,800.00	1	
4" AIR VAC.RELEASE VALVE	\$5,500.00	\$5,500.00	1	
16" BUTTERFLY VALVE	\$3,000.00	\$3,000.00	2	
16" TEE	\$1,600.00	\$1,600.00	1	
2" BLOW-OFF	\$1,700.00	\$0.00	1	
CONNECT TO EXISTING	\$3,000.00	\$3,000.00	1	

Reviewed By:


Richard Shackley
Inspection Supervisor

Date: 12/28/06

**PRICE VERIFICATION FOR
EASTLAKE PARKWAY REIMBURSEMENT AGREEMENT
POTABLE; PHASE 1 - 3**

CIP P2164 (W164) (WO# 9415, 9540)

Contractors: TC Construction, Inc. / Burtech Pipeline, Inc.

Item Description	BSO LLC Requests	Otay Verification	BSO LLC Actual Quantity	Comments
8" WATER MAIN 980'Zone	\$22.50	\$0.00	187	
20" WATER MAIN 980'Zone	\$62.00	\$62.00	1123	
TEMP END CAP W/ 4" BLOW-OFF	\$2,000.00	\$2,000.00	2	
TEMP END CAP W/ 2" BLOW-OFF	\$650.00	\$0.00	1	
TEST STATION	\$0.00	\$0.00	0	
4" AIR VAC.RELEASE VALVE	\$5,300.00	\$5,300.00	2	
8" RESILIENT SEAT G.V.	\$1,100.00	\$0.00	1	
20" BUTTERFLY VALVE	\$8,200.00	\$8,200.00	2	
END CAP	\$0.00	\$0.00	0	
CONNECT TO EXISTING	\$4,850.00	\$4,850.00	1	
FIRE HYDRANT/B.O.	\$3,750.00	\$3,750.00	1	
12" WATER MAIN 980'Zone	\$39.00	\$0.00	60	
20" WATER MAIN 980'Zone	\$54.00	\$54.00	1161	
2" BLOW-OFF Temp.	\$1,700.00	\$0.00	1	
4" AIR VAC.RELEASE VALVE	\$5,500.00	\$5,500.00	1	
12" RESILIENT SEAT G.V.	\$1,350.00	\$0.00	2	
20" BUTTERFLY VALVE	\$5,900.00	\$5,900.00	1	
20"x 12" REDUCER	\$3,500.00	\$0.00	1	
CONNECT TO EXISTING	\$3,000.00	\$3,000.00	1	
END CAP	\$0.00	\$0.00	0	
4" BLOW OFF	\$3,800.00	\$3,800.00	2	
FIRE HYDRANT/B.O.	\$3,900.00	\$3,900.00	2	

Reviewed By:



Richard Shackley
Inspection Supervisor

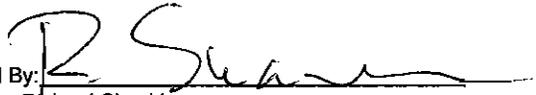
Date: 12/28/06

PRICE VERIFICATION FOR
 HUNTE PARKWAY REIMBURSEMENT AGREEMENT
 RECLAIMED; PHASE 1 - 3

CIP R2031 (R031) (WO# 9540, 9415)

Contractors: TC Construction, Inc. / Burtech Pipeline, Inc.

Item Description	BSO LLC Requests	Otay Verification	BSO LLC Actual Quantity	Comments
12" WATER MAIN 944' Zone	\$37.00	\$37.00	1338	
2" BLOW-OFF	\$0.00	\$0.00	0	
2" AIR VAC.RELEASE VALVE	\$2,500.00	\$2,500.00	1	
12" RESILIENT SEAT G.V.	\$1,600.00	\$1,600.00	4	
TEST STATION	\$0.00	\$0.00	0	
TEMP END CAP W/ 2" BLOW-OFF	\$700.00	\$700.00	2	
6" WATER MAIN	\$22.00	\$0.00	122	
12" WATER MAIN	\$40.00	\$40.00	1141	
2" BLOW-OFF	\$1,500.00	\$1,500.00	2	
2" BLOW-OFF Temp.	\$1,000.00	\$1,000.00	1	
2" AIR VAC.RELEASE VALVE	\$1,800.00	\$1,800.00	1	
12" RESILIENT SEAT G.V.	\$1,300.00	\$1,300.00	1	
6" RESILIENT SEAT G.V.	\$800.00	\$0.00	1	
12"x 6" REDUCER	\$1,100.00	\$0.00	1	
CONNECT TO EXISTING	\$1,500.00	\$0.00	0	
END CAP	\$0.00	\$0.00	0	

Reviewed By: 
 Richard Shackley
 Inspection Supervisor

Date: 12/28/06

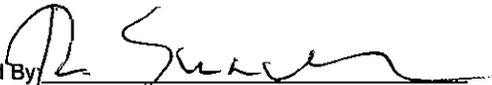
ATTACHMENT 2

PRICE VERIFICATION FOR
HUNTE PARKWAY REIMBURSEMENT AGREEMENT
RECLAIMED; PHASE 1 - 3

CIP R2041 (R041) (WO# 9540)

Contractors: Burtech Pipeline, Inc.

Item Description	BSO LLC Requests	Otay Verification	BSO LLC Actual Quantity	Comments
8" WATER MAIN	\$23.00	\$23.00	782	
12" WATER MAIN	\$40.00	\$0.00	41	
2" BLOW-OFF	\$1,500.00	\$1,500.00	1	
2" BLOW-OFF Temp.	\$1,000.00	\$1,000.00	2	
2" AIR VAC.RELEASE VALVE	\$1,800.00	\$1,800.00	1	
12" RESILIENT SEAT G.V.	\$1,300.00	\$0.00	1	
8" RESILIENT SEAT G.V.	\$900.00	\$900.00	1	
12" CROSS	\$2,300.00	\$2,300.00	1	
12"x 8" REDUCER	\$1,200.00	\$1,200.00	1	
CONNECT TO EXISTING	\$0.00	\$0.00	0	
END CAP	\$0.00	\$0.00	0	
8" WATER MAIN	\$26.00	\$26.00	2729	
2" BLOW-OFF	\$2,100.00	\$2,100.00	1	
2" AIR VAC.RELEASE VALVE	\$2,600.00	\$2,600.00	1	
8" RESILIENT SEAT G.V.	\$1,200.00	\$1,200.00	3	
TEST STATION	\$0.00	\$0.00	0	
END CAP	\$1,500.00	\$1,500.00	4	

Reviewed By 
Richard Shackley
Inspection Supervisor

Date: 12/28/06

ATTACHMENT 2

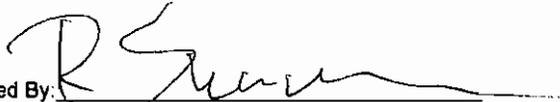
**PRICE VERIFICATION FOR
HUNTE PARKWAY REIMBURSEMENT AGREEMENT
RECLAIMED; PHASE 1 - 3**

CIP R2040 (R040) (WO# 9416, 9537, D0017-000006)

Contractors: TC Construction, Inc. / KTA Construction, Inc.

Item Description	BSO LLC Requests	Otay Verification	BSO LLC Actual Quantity	Comments
12" WATER MAIN	\$39.00	\$39.00	1080	
END CAP W/2" BLOW-OFF	\$675.00	\$675.00	1	
2" AIR VAC.RELEASE VALVE	\$2,700.00	\$2,700.00	5	
CONNECT TO EXISTING STUB	\$2,100.00	\$2,100.00	1	
12" WATER MAIN	\$35.00	\$35.00	3387	
END CAP W/2" BLOW-OFF	\$750.00	\$750.00	5	
12" RESILIENT SEAT G.V.	\$1,700.00	\$1,700.00	3	
2" AIR VAC.RELEASE VALVE	\$2,500.00	\$2,500.00	5	
CONNECT TO EXISTING STUB	\$1,000.00	\$1,000.00	1	
12" WATER MAIN	\$49.00	\$49.00	5284	
6" RESILIENT SEAT G.V.	\$800.00	\$0.00	0	
12" RESILIENT SEAT G.V.	\$5,850.00	\$0.00	0	
2" AIR VAC.RELEASE VALVE	\$6,000.00	\$6,000.00	1	
CONNECT TO EXISTING STUB	\$650.00	\$650.00	3	

Reviewed By:



Richard Shackley
Inspection Supervisor

Date: 12/28/06

REIMBURSEMENT SUMMARY SHEET - BROOKFIELD SHEA OTAY LLC

BROOKFIELD SHEA OTAY, LLC REQUESTS

DEVELOPMENT SERVICES STAFF'S RECOMMENDATION

BSO Qty	BSO Unit Price	BSO Cost	Soft Costs @ 5%	BSO Total Expense	Otay Qty	Otay Verification	Otay Cost	Soft Costs @ 5%	Otay Total Expense	District's Total CIP Budget	DSD Staff's Proposed Reimbursement	SAMP Reimbursement Amt Per Agmt.
CIP P2121 PL - 16-Inch, 711 Zone, Hunte Parkway - Olympic/EastLake Contractors: TC Construction, Inc. / KTA Construction, Inc.												
WO# 9416, 9537, D0017-000006 Budgeted Amount: P2121 \$1,174,000												
10" WATER MAIN	107	\$30.00	\$3,210.00	\$160.50	\$3,370.50	107	\$0.00	\$0.00	\$0.00	\$0.00		
16" WATER MAIN	1096	\$36.50	\$40,004.00	\$2,000.20	\$42,004.20	1096	\$36.50	\$40,004.00	\$2,000.20	\$42,004.20		
16" TEE	1	\$6,300.00	\$6,300.00	\$315.00	\$6,615.00	1	\$6,300.00	\$6,300.00	\$315.00	\$6,615.00		
16" BUTTERFLY VALVE	0	\$0.00	\$0.00	\$0.00	\$0.00	0	\$0.00	\$0.00	\$0.00	\$0.00		
16"x 10" REDUCER	1	\$900.00	\$900.00	\$45.00	\$945.00	1	\$0.00	\$0.00	\$0.00	\$0.00		
24"x 16" REDUCER	1	\$1,650.00	\$1,650.00	\$82.50	\$1,732.50	1	\$0.00	\$0.00	\$0.00	\$0.00		
END CAP W/4" BLOW-OFF	1	\$700.00	\$700.00	\$35.00	\$735.00	1	\$700.00	\$700.00	\$35.00	\$735.00		
4" AIR VAC.RELEASE VALVE	1	\$4,800.00	\$4,800.00	\$240.00	\$5,040.00	1	\$4,800.00	\$4,800.00	\$240.00	\$5,040.00		
THRUST BLOCK	3	\$500.00	\$1,500.00	\$75.00	\$1,575.00	3	\$500.00	\$1,500.00	\$75.00	\$1,575.00		
10" RESILIENT SEAT G.V.	1	\$1,500.00	\$1,500.00	\$75.00	\$1,575.00	1	\$0.00	\$0.00	\$0.00	\$0.00		
CONNECT TO EXISTING STUB	1	\$4,800.00	\$4,800.00	\$230.00	\$4,830.00	1	\$4,800.00	\$4,600.00	\$230.00	\$4,830.00		
FIRE HYDRANT/B.O.	1	\$3,950.00	\$3,950.00	\$197.50	\$4,147.50	1	\$3,950.00	\$3,950.00	\$197.50	\$4,147.50		
Phase 1 Total				\$72,569.70	Phase 1 Total				\$64,946.70			
8" WATER MAIN	105	\$23.00	\$2,415.00	\$120.75	\$2,535.75	105	\$0.00	\$0.00	\$0.00	\$0.00		
16" WATER MAIN	3436	\$37.00	\$127,132.00	\$6,356.60	\$133,488.60	3436	\$37.00	\$127,132.00	\$6,356.60	\$133,488.60		
16" BUTTERFLY VALVE	4	\$3,500.00	\$14,000.00	\$700.00	\$14,700.00	4	\$3,500.00	\$14,000.00	\$700.00	\$14,700.00		
END CAP W/4" BLOW-OFF	4	\$1,000.00	\$4,000.00	\$200.00	\$4,200.00	2	\$1,000.00	\$2,000.00	\$100.00	\$2,100.00		
4" AIR VAC.RELEASE VALVE	4	\$5,700.00	\$22,800.00	\$1,140.00	\$23,940.00	4	\$5,700.00	\$22,800.00	\$1,140.00	\$23,940.00		
THRUST BLOCK	12	\$100.00	\$1,200.00	\$60.00	\$1,260.00	11	\$100.00	\$1,100.00	\$55.00	\$1,155.00		
8" RESILIENT SEAT G.V.	1	\$625.00	\$625.00	\$31.25	\$656.25	1	\$0.00	\$0.00	\$0.00	\$0.00		
CONNECT TO EXISTING STUB	1	\$1,000.00	\$1,000.00	\$50.00	\$1,050.00	1	\$1,000.00	\$1,000.00	\$50.00	\$1,050.00		
16"x 8" REDUCER	1	\$2,800.00	\$2,800.00	\$140.00	\$2,940.00	1	\$0.00	\$0.00	\$0.00	\$0.00		
FIRE HYDRANT/B.O.	3	\$3,400.00	\$10,200.00	\$510.00	\$10,710.00	3	\$3,400.00	\$10,200.00	\$510.00	\$10,710.00		
Phase 2 Total				\$195,480.60	Phase 2 Total				\$187,143.60			
10" WATER MAIN	384	\$43.00	\$16,512.00	\$825.60	\$17,337.60	107	\$0.00	\$0.00	\$0.00	\$0.00		
16" WATER MAIN	4065	\$48.00	\$195,120.00	\$9,756.00	\$204,876.00	4065	\$48.00	\$195,120.00	\$9,756.00	\$204,876.00		
16" BUTTERFLY VALVE	6	\$6,000.00	\$36,000.00	\$1,800.00	\$37,800.00	6	\$6,000.00	\$36,000.00	\$1,800.00	\$37,800.00		
TEMP END CAP W/ 2" BLOW-OFF	2	\$300.00	\$600.00	\$30.00	\$630.00	2	\$300.00	\$600.00	\$30.00	\$630.00		
4" BLOW-OFF	2	\$4,700.00	\$9,400.00	\$470.00	\$9,870.00	2	\$4,700.00	\$9,400.00	\$470.00	\$9,870.00		
4" AIR VAC.RELEASE VALVE	3	\$7,000.00	\$21,000.00	\$1,050.00	\$22,050.00	3	\$7,000.00	\$21,000.00	\$1,050.00	\$22,050.00		
10" RESILIENT SEAT G.V.	7	\$1,600.00	\$11,200.00	\$560.00	\$11,760.00	1	\$0.00	\$0.00	\$0.00	\$0.00		
CONNECT TO EXISTING	5	\$650.00	\$3,250.00	\$162.50	\$3,412.50	1	\$650.00	\$650.00	\$32.50	\$682.50		
THRUST BLOCK	6	\$300.00	\$1,800.00	\$90.00	\$1,890.00	4	\$300.00	\$1,200.00	\$60.00	\$1,260.00		
FIRE HYDRANT W/BO	3	\$5,000.00	\$15,000.00	\$750.00	\$15,750.00	3	\$5,000.00	\$15,000.00	\$750.00	\$15,750.00		
Phase 3 Total				\$325,376.10	Phase 3 Total				\$292,918.50			
Total:				\$593,426.40	Total:				\$545,098.80	\$1,174,000.00	\$545,008.80	\$1,250,000.00

REIMBURSEMENT SUMMARY SHEET - BROOKFIELD SHEA OTAY LLC

BROOKFIELD SHEA OTAY, LLC REQUESTS

DEVELOPMENT SERVICES STAFF'S RECOMMENDATION

											District's Total CIP Budget	DSD Staff's Proposed Reimbursement	SAMP Reimbursement Amt Per Agmt.
BSO Qty	BSO Unit Price	BSO Cost	Soft Costs @ 5%	BSO Total Expense	Otay Qty	Otay Verification	Otay Cost	Soft Costs @ 5%	Otay Total Expense				
CIP P2133													
PL - 16-Inch, 711 Zone, EastLake Parkway - Olympic/Birch													
Contractors: TC Construction, Inc. / Burtech Pipeline, Inc.													
WO# 9540, 9415													
Budgeted Amount: P2133 \$750,000													
16" WATER MAIN 711'Zone	1131	\$38.00	\$42,978.00	\$2,148.90	\$45,126.90	1131	\$38.00	\$42,978.00	\$2,148.90	\$45,126.90			
6" BLOW-OFF	1	\$4,000.00	\$4,000.00	\$200.00	\$4,200.00	1	\$4,000.00	\$4,000.00	\$200.00	\$4,200.00			
4" AIR VAC.RELEASE VALVE	2	\$5,300.00	\$10,600.00	\$530.00	\$11,130.00	1	\$5,300.00	\$5,300.00	\$265.00	\$5,565.00			
8" RESILIENT SEAT G.V.	1	\$1,100.00	\$1,100.00	\$55.00	\$1,155.00	1	\$0.00	\$0.00	\$0.00	\$0.00			
20" BUTTERFLY VALVE	2	\$8,200.00	\$16,400.00	\$820.00	\$17,220.00	1	\$8,200.00	\$8,200.00	\$410.00	\$8,610.00			
TEST STATION	0	\$0.00	\$0.00	\$0.00	\$0.00	0	\$0.00	\$0.00	\$0.00	\$0.00			
TEMP END CAP W/ 4" BLOW-OFF	2	\$2,000.00	\$4,000.00	\$200.00	\$4,200.00	1	\$2,000.00	\$2,000.00	\$100.00	\$2,100.00			
FIRE HYDRANT/B.O.	1	\$3,750.00	\$3,750.00	\$187.50	\$3,937.50	1	\$3,750.00	\$3,750.00	\$187.50	\$3,937.50			
Phase 1 Total				\$86,969.40	Phase 1 Total				\$69,539.40				
16" WATER MAIN 711'Zone	1191	\$40.00	\$47,840.00	\$2,382.00	\$50,222.00	1191	\$40.00	\$47,640.00	\$2,382.00	\$50,022.00			
4" BLOW-OFF	2	\$3,800.00	\$7,600.00	\$380.00	\$7,980.00	2	\$3,800.00	\$7,600.00	\$380.00	\$7,980.00			
4" BLOW-OFF Temp.	1	\$1,800.00	\$1,800.00	\$90.00	\$1,890.00	1	\$1,800.00	\$1,800.00	\$90.00	\$1,890.00			
4" AIR VAC.RELEASE VALVE	1	\$5,500.00	\$5,500.00	\$275.00	\$5,775.00	1	\$5,500.00	\$5,500.00	\$275.00	\$5,775.00			
16" BUTTERFLY VALVE	2	\$3,000.00	\$6,000.00	\$300.00	\$6,300.00	2	\$3,000.00	\$6,000.00	\$300.00	\$6,300.00			
16" TEE	1	\$1,600.00	\$1,600.00	\$80.00	\$1,680.00	1	\$1,600.00	\$1,600.00	\$80.00	\$1,680.00			
2" BLOW-OFF	1	\$1,700.00	\$1,700.00	\$85.00	\$1,785.00	1	\$0.00	\$0.00	\$0.00	\$0.00			
CONNECT TO EXISTING	1	\$3,000.00	\$3,000.00	\$150.00	\$3,150.00	1	\$3,000.00	\$3,000.00	\$150.00	\$3,150.00			
Phase 2 Total				\$78,582.00	Phase 2 Total				\$78,797.00				
Total:				\$165,551.40	Total:				\$146,336.40	\$750,000.00	\$146,336.40	\$230,000.00	

REIMBURSEMENT SUMMARY SHEET - BROOKFIELD SHEA OTAY LLC

BROOKFIELD SHEA OTAY, LLC REQUESTS

DEVELOPMENT SERVICES STAFF'S RECOMMENDATION

											District's Total CIP Budget	DSD Staff's Proposed Reimbursement	SAMP Reimbursement Amt Per Agent
BSO Qty	BSO Unit Price	BSO Cost	Soft Costs @ 5%	BSO Total Expense	Otay Qty	Otay Verification	Otay Cost	Soft Costs @ 5%	Otay Total Expense				
CIP P2164													
PL - 20-Inch, 980 Zone, EastLake Parkway - Olympic/Birch													
Contractors: TC Construction, Inc. / Burtech Pipeline, Inc.													
WO# 9415, 9540													
Budgeted Amount: P2164 \$500,000													
8" WATER MAIN 980'Zone	187	\$22.50	\$4,207.50	\$210.38	\$4,417.88	59	\$0.00	\$0.00	\$0.00	\$0.00			
20" WATER MAIN 980'Zone	1123	\$62.00	\$69,626.00	\$3,481.30	\$73,107.30	1123	\$62.00	\$69,626.00	\$3,481.30	\$73,107.30			
TEMP END CAP W/ 4" BLOW-OFF	2	\$2,000.00	\$4,000.00	\$200.00	\$4,200.00	2	\$2,000.00	\$4,000.00	\$200.00	\$4,200.00			
TEMP END CAP W/ 2" BLOW-OFF	1	\$650.00	\$650.00	\$32.50	\$682.50	1	\$0.00	\$0.00	\$0.00	\$0.00			
TEST STATION	0	\$0.00	\$0.00	\$0.00	\$0.00	0	\$0.00	\$0.00	\$0.00	\$0.00			
4" AIR VAC.RELEASE VALVE	2	\$5,300.00	\$10,600.00	\$530.00	\$11,130.00	1	\$5,300.00	\$5,300.00	\$265.00	\$5,565.00			
8" RESILIENT SEAT G.V.	1	\$1,100.00	\$1,100.00	\$55.00	\$1,155.00	1	\$0.00	\$0.00	\$0.00	\$0.00			
20" BUTTERFLY VALVE	2	\$8,200.00	\$16,400.00	\$820.00	\$17,220.00	2	\$8,200.00	\$16,400.00	\$820.00	\$17,220.00			
END CAP	0	\$0.00	\$0.00	\$0.00	\$0.00	0	\$0.00	\$0.00	\$0.00	\$0.00			
CONNECT TO EXISTING	1	\$4,850.00	\$4,850.00	\$242.50	\$5,092.50	1	\$4,850.00	\$4,850.00	\$242.50	\$5,092.50			
FIRE HYDRANT/B.O.	1	\$3,750.00	\$3,750.00	\$187.50	\$3,937.50	1	\$3,750.00	\$3,750.00	\$187.50	\$3,937.50			
Phase 1 Total					\$120,942.68	Phase 1 Total				\$109,122.30			
12" WATER MAIN 980'Zone	60	\$39.00	\$2,340.00	\$117.00	\$2,457.00	60	\$0.00	\$0.00	\$0.00	\$0.00			
20" WATER MAIN 980'Zone	1161	\$54.00	\$62,694.00	\$3,134.70	\$65,828.70	1161	\$54.00	\$62,694.00	\$3,134.70	\$65,828.70			
2" BLOW-OFF Temp.	1	\$1,700.00	\$1,700.00	\$85.00	\$1,785.00	1	\$0.00	\$0.00	\$0.00	\$0.00			
4" AIR VAC.RELEASE VALVE	1	\$5,500.00	\$5,500.00	\$275.00	\$5,775.00	1	\$5,500.00	\$5,500.00	\$275.00	\$5,775.00			
12" RESILIENT SEAT G.V.	2	\$1,350.00	\$2,700.00	\$135.00	\$2,835.00	2	\$0.00	\$0.00	\$0.00	\$0.00			
20" BUTTERFLY VALVE	1	\$5,900.00	\$5,900.00	\$295.00	\$6,195.00	1	\$5,900.00	\$5,900.00	\$295.00	\$6,195.00			
20"x 12" REDUCER	1	\$3,500.00	\$3,500.00	\$175.00	\$3,675.00	1	\$0.00	\$0.00	\$0.00	\$0.00			
CONNECT TO EXISTING	1	\$3,000.00	\$3,000.00	\$150.00	\$3,150.00	1	\$3,000.00	\$3,000.00	\$150.00	\$3,150.00			
END CAP	0	\$0.00	\$0.00	\$0.00	\$0.00	0	\$0.00	\$0.00	\$0.00	\$0.00			
4" BLOW OFF	2	\$3,800.00	\$7,600.00	\$380.00	\$7,980.00	2	\$3,800.00	\$7,600.00	\$380.00	\$7,980.00			
FIRE HYDRANT/B.O.	2	\$3,900.00	\$7,800.00	\$390.00	\$8,190.00	2	\$3,900.00	\$7,800.00	\$390.00	\$8,190.00			
Phase 2 Total					\$107,870.70	Phase 2 Total				\$97,118.70			
Total:					\$228,813.38	Total:				\$206,241.00	\$500,000.00	\$206,241.00	\$279,650.00

REIMBURSEMENT SUMMARY SHEET - BROOKFIELD SHEA OTAY LLC

BROOKFIELD SHEA OTAY, LLC REQUESTS

DEVELOPMENT SERVICES STAFF'S RECOMMENDATION

		BSO Qty	BSO Unit Price	BSO Cost	Soft Costs @ 5%	BSO Total Expense	Otay Qty	Otay Verification	Otay Cost	Soft Costs @ 5%	Otay Total Expense	District's Total CIP Budget	DSD Staff's Proposed Reimbursement	SAMP Reimbursement Amt Per Agmt.
CIP R2031		RecPL - 12-Inch, 944 Zone, EastLake Parkway - Olympic/Birch					Contractors: TC Construction, Inc. / Burtech Pipeline, Inc.							
WO# 9540, 9415		Budgeted Amount: R2031 \$228,922.44												
12" WATER MAIN 944' Zone	1338	\$37.00	\$49,506.00	\$2,475.30	\$51,981.30	1181		\$37.00	\$43,697.00	\$2,184.85	\$45,881.85			
2" BLOW-OFF	0	\$0.00	\$0.00	\$0.00	\$0.00	0		\$0.00	\$0.00	\$0.00	\$0.00			
2" AIR VAC.RELEASE VALVE	1	\$2,500.00	\$2,500.00	\$125.00	\$2,625.00	1		\$2,500.00	\$2,500.00	\$125.00	\$2,625.00			
12" RESILIENT SEAT G.V.	4	\$1,600.00	\$6,400.00	\$320.00	\$6,720.00	2		\$1,800.00	\$3,200.00	\$160.00	\$3,360.00			
TEST STATION	0	\$0.00	\$0.00	\$0.00	\$0.00	0		\$0.00	\$0.00	\$0.00	\$0.00			
TEMP END CAP W/ 2" BLOW-OFF	2	\$700.00	\$1,400.00	\$70.00	\$1,470.00	2		\$700.00	\$1,400.00	\$70.00	\$1,470.00			
Phase 1 Total					\$62,796.30	Phase 1 Total					\$53,336.85			
6" WATER MAIN	122	\$22.00	\$2,684.00	\$134.20	\$2,818.20	122		\$0.00	\$0.00	\$0.00	\$0.00			
12" WATER MAIN	1141	\$40.00	\$45,640.00	\$2,282.00	\$47,922.00	1141		\$40.00	\$45,640.00	\$2,282.00	\$47,922.00			
2" BLOW-OFF	2	\$1,500.00	\$3,000.00	\$150.00	\$3,150.00	2		\$1,500.00	\$3,000.00	\$150.00	\$3,150.00			
2" BLOW-OFF Temp.	1	\$1,000.00	\$1,000.00	\$50.00	\$1,050.00	1		\$1,000.00	\$1,000.00	\$50.00	\$1,050.00			
2" AIR VAC.RELEASE VALVE	1	\$1,800.00	\$1,800.00	\$90.00	\$1,890.00	1		\$1,800.00	\$1,800.00	\$90.00	\$1,890.00			
12" RESILIENT SEAT G.V.	1	\$1,300.00	\$1,300.00	\$65.00	\$1,365.00	1		\$1,300.00	\$1,300.00	\$65.00	\$1,365.00			
6" RESILIENT SEAT G.V.	1	\$800.00	\$800.00	\$40.00	\$840.00	1		\$0.00	\$0.00	\$0.00	\$0.00			
12"x 6" REDUCER	1	\$1,100.00	\$1,100.00	\$55.00	\$1,155.00	1		\$0.00	\$0.00	\$0.00	\$0.00			
CONNECT TO EXISTING	0	\$1,500.00	\$0.00	\$0.00	\$0.00	0		\$0.00	\$0.00	\$0.00	\$0.00			
END CAP	0	\$0.00	\$0.00	\$0.00	\$0.00	0		\$0.00	\$0.00	\$0.00	\$0.00			
Phase 2 Total					\$60,190.20	Phase 2 Total					\$55,377.00			
Total:					\$122,986.50	Total:					\$108,713.85	\$228,922.44	\$108,713.85	\$218,000.00

REIMBURSEMENT SUMMARY SHEET - BROOKFIELD SHEA OTAY LLC

BROOKFIELD SHEA OTAY, LLC REQUESTS

DEVELOPMENT SERVICES STAFF'S RECOMMENDATION

											District's Total CIP Budget	DSD Staff's Proposed Reimbursement	SAMP Reimbursement Amt Per Agmt.
BSO Qty	BSO Unit Price	BSO Cost	Soft Costs @ 5%	BSO Total Expense	Otay Qty	Otay Verification	Otay Cost	Soft Costs @ 5%	Otay Total Expense				
CIP R2041													
RecPL - 8-Inch, 944 Zone, EastLake Parkway - Birch/Rock Mountain													
Contractors: Burtech Pipeline, Inc.													
WO# 9540													
Budgeted Amount: R2041 \$282,000													
8" WATER MAIN	782	\$23.00	\$17,986.00	\$899.30	\$18,885.30	782	\$23.00	\$17,986.00	\$899.30	\$18,885.30			
12" WATER MAIN	41	\$40.00	\$1,640.00	\$82.00	\$1,722.00	41	\$0.00	\$0.00	\$0.00	\$0.00			
2" BLOW-OFF	1	\$1,500.00	\$1,500.00	\$75.00	\$1,575.00	1	\$1,500.00	\$1,500.00	\$75.00	\$1,575.00			
2" BLOW-OFF Temp.	2	\$1,000.00	\$2,000.00	\$100.00	\$2,100.00	2	\$1,000.00	\$2,000.00	\$100.00	\$2,100.00			
2" AIR VAC.RELEASE VALVE	1	\$1,800.00	\$1,800.00	\$90.00	\$1,890.00	1	\$1,800.00	\$1,800.00	\$90.00	\$1,890.00			
12" RESILIENT SEAT G.V.	1	\$1,300.00	\$1,300.00	\$65.00	\$1,365.00	1	\$0.00	\$0.00	\$0.00	\$0.00			
8" RESILIENT SEAT G.V.	1	\$900.00	\$900.00	\$45.00	\$945.00	1	\$900.00	\$900.00	\$45.00	\$945.00			
12" CROSS	1	\$2,300.00	\$2,300.00	\$115.00	\$2,415.00	1	\$2,300.00	\$2,300.00	\$115.00	\$2,415.00			
12"x 8" REDUCER	1	\$1,200.00	\$1,200.00	\$60.00	\$1,260.00	1	\$1,200.00	\$1,200.00	\$60.00	\$1,260.00			
CONNECT TO EXISTING	0	\$0.00	\$0.00	\$0.00	\$0.00	0	\$0.00	\$0.00	\$0.00	\$0.00			
END CAP	0	\$0.00	\$0.00	\$0.00	\$0.00	0	\$0.00	\$0.00	\$0.00	\$0.00			
Phase 2 Total				\$32,157.30	Phase 2 Total				\$29,070.30				
8" WATER MAIN	2729	\$26.00	\$70,954.00	\$3,547.70	\$74,501.70	2400	\$28.00	\$62,400.00	\$3,120.00	\$65,520.00			
2" BLOW-OFF	1	\$2,100.00	\$2,100.00	\$105.00	\$2,205.00	1	\$2,100.00	\$2,100.00	\$105.00	\$2,205.00			
2" AIR VAC.RELEASE VALVE	1	\$2,600.00	\$2,600.00	\$130.00	\$2,730.00	1	\$2,600.00	\$2,600.00	\$130.00	\$2,730.00			
8" RESILIENT SEAT G.V.	3	\$1,200.00	\$3,600.00	\$180.00	\$3,780.00	3	\$1,200.00	\$3,600.00	\$180.00	\$3,780.00			
TEST STATION	0	\$0.00	\$0.00	\$0.00	\$0.00	0	\$0.00	\$0.00	\$0.00	\$0.00			
END CAP	4	\$1,500.00	\$6,000.00	\$300.00	\$6,300.00	1	\$1,500.00	\$1,500.00	\$75.00	\$1,575.00			
Phase 3 Total				\$89,516.70	Phase 3 Total				\$75,810.00				
Total:				\$121,674.00	Total:				\$104,880.30	\$282,000.00	\$104,880.30	\$124,000.00	

REIMBURSEMENT SUMMARY SHEET - BROOKFIELD SHEA OTAY LLC

BROOKFIELD SHEA OTAY, LLC REQUESTS

DEVELOPMENT SERVICES STAFF'S RECOMMENDATION

BSO Qty	BSO Unit Price	BSO Cost	Soft Costs @ 5%	BSO Total Expense	Otay Qty	Otay Verification	Otay Cost	Soft Costs @ 5%	Otay Total Expense	District's Total CIP Budget	DSD Staff's Proposed Reimbursement	SAMP Reimbursement Amt Per Agmt.	
CIP R2040													
RecPL - 12-Inch, 680 Zone, Hunte Parkway - Olympic/EastLake				Contractors: TC Construction, Inc. / KTA Construction, Inc.									
WO# 9416, 9537, D0017-000006				Budgeted Amount: R2040 \$1,059,000									
12" WATER MAIN	1080	\$39.00	\$42,120.00	\$2,106.00	\$44,226.00	1080	\$39.00	\$42,120.00	\$2,106.00	\$44,226.00			
END CAP W/2" BLOW-OFF	1	\$675.00	\$675.00	\$33.75	\$708.75	1	\$675.00	\$675.00	\$33.75	\$708.75			
2" AIR VAC.RELEASE VALVE	5	\$2,700.00	\$13,500.00	\$675.00	\$14,175.00	1	\$2,700.00	\$2,700.00	\$135.00	\$2,835.00			
CONNECT TO EXISTING STUB	1	\$2,100.00	\$2,100.00	\$105.00	\$2,205.00	1	\$2,100.00	\$2,100.00	\$105.00	\$2,205.00			
Phase 1 Total				\$61,314.75				Phase 1 Total				\$49,974.75	
12" WATER MAIN	3387	\$35.00	\$118,545.00	\$5,927.25	\$124,472.25	3387	\$35.00	\$118,545.00	\$5,927.25	\$124,472.25			
END CAP W/2" BLOW-OFF	5	\$750.00	\$3,750.00	\$187.50	\$3,937.50	2	\$750.00	\$1,500.00	\$75.00	\$1,575.00			
12" RESILIENT SEAT G.V.	3	\$1,700.00	\$5,100.00	\$255.00	\$5,355.00	3	\$1,700.00	\$5,100.00	\$255.00	\$5,355.00			
2" AIR VAC.RELEASE VALVE	5	\$2,500.00	\$12,500.00	\$625.00	\$13,125.00	4	\$2,500.00	\$10,000.00	\$500.00	\$10,500.00			
CONNECT TO EXISTING STUB	1	\$1,000.00	\$1,000.00	\$50.00	\$1,050.00	1	\$1,000.00	\$1,000.00	\$50.00	\$1,050.00			
Phase 2 Total				\$147,939.75				Phase 2 Total				\$142,952.25	
12" WATER MAIN	5284	\$49.00	\$258,916.00	\$12,945.80	\$271,861.80	4095	\$49.00	\$200,655.00	\$10,032.75	\$210,687.75			
6" RESILIENT SEAT G.V.	0	\$800.00	\$0.00	\$0.00	\$0.00	0	\$0.00	\$0.00	\$0.00	\$0.00			
12" RESILIENT SEAT G.V.	0	\$5,850.00	\$0.00	\$0.00	\$0.00	0	\$0.00	\$0.00	\$0.00	\$0.00			
2" AIR VAC.RELEASE VALVE	1	\$6,000.00	\$6,000.00	\$300.00	\$6,300.00	1	\$6,000.00	\$6,000.00	\$300.00	\$6,300.00			
CONNECT TO EXISTING STUB	3	\$650.00	\$1,950.00	\$97.50	\$2,047.50	1	\$650.00	\$650.00	\$32.50	\$682.50			
Phase 3 Total				\$280,209.30				Phase 3 Total				\$217,670.25	
Total:				\$489,463.80				Total:				\$410,597.25	
				\$1,721,915.48								\$1,521,777.60	
											\$1,059,000.00	\$410,597.25	\$774,000.00

CIP W121	\$593,426.40
CIP W133	\$165,551.40
CIP W164	\$228,813.38
CIP R031	\$122,986.50
CIP R041	\$121,674.00
CIP R040	\$489,463.80
Grand Total:	\$1,721,915.48

District's Total CIP Budget:	\$3,993,922.44
SAMP Reimbursement Amount Per Agreement:	\$2,673,650.00
DSD Staff's Recommended Reimbursement:	\$1,521,777.60
Brookfield Shea Otay LLC is requesting Reimbursement in the amount of:	\$1,721,915.48
Difference Between Recommended and Requested:	\$200,137.88



STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	February 7, 2007
SUBMITTED BY:	Ron Ripperger, <i>WR</i> Engineering Manager	C.I.P.W.O.:	2022/ DIV. NO. 2 8875
APPROVED BY: (Chief)	Rod Posada, <i>RP</i> Chief, Engineering		
APPROVED BY: (Asst. GM):	Manny Magaña, <i>MM</i> Assistant General Manager, Engineering and Operations		
SUBJECT:	Rejection of Atomic Investments Claim		

GENERAL MANAGER'S RECOMMENDATION:

That the Board reject a claim submitted by Atomic Investments, Inc. for the amount of \$41,283.

COMMITTEE ACTION: _____

See Attachment "A".

PURPOSE:

On December 5, 2006, Atomic Investments, Inc., located at 3200 B4-2 Highland Avenue, National City, California 91950, submitted a claim for reimbursement of \$41,283. The claim (See Attachment "B") alleges damages at Atomic Investments' property located at 4619 Main Street, Chula Vista, California to general grading and asphalt, irrigation and trees and shrubs that were removed as part of the installation of a portion of the District's 30-Inch Recycled Water Pipeline.

This action is necessary in order to begin the statute of limitations for bringing any legal action in this matter.

ANALYSIS:

In preparation for the installation of the 30-Inch Recycled Water Pipeline project the District acquired temporary and permanent easements from property owners within the City of San Diego and the City of Chula Vista. As part of this acquisition process, one temporary easement and one permanent easement were acquired from Atomic Investments, Inc. within its real property

located at 4619 Main Street in Chula Vista. The District paid approximately \$163,000 for the easements which granted the District the right to construct, maintain and operate portions of the pipeline within said real property.

The items listed by Atomic Investments as items requiring replacement would have been removed as part of Atomic Investments planned improvements to its property, consisting mainly of the expansion of its existing parking lot to the east up to a point overlapping the District's easements. In fact, during design and construction of the recycled water pipeline, the District worked in good faith with Atomic Investments to locate pipeline appurtenances so that there would be no impact to its existing and future parking lot. The District and the District's Construction Manager, RBF, coordinated several times with Atomic Investments to ensure the pipeline vaults and valve cans were at grade with the new parking surface or out of the parking lot area all together. According to RBF, Atomic Investments specifically requested that the portion of the asphalt removed in connection with the installation not be replaced because Atomic Investments intended to pave that portion of the easement with concrete.

Atomic Investments has now submitted the referenced-claim in the amount of \$41,283 as compensation for the value of certain plants and shrubs, irrigation and general grading and asphalt. District Staff believes that the District bears no responsibility for the items included in the claim for the following reasons: (i) it was never intended that the trees and shrubs removed in connection with the installation of the pipeline would be replaced and Atomic Investments was compensated for the value of the plants and shrubs in connection with the easements; (ii) grading was completed by the District's contractor per the request of Atomic Investments and the District already paid for such costs; (iii) the District did not cause asphalt to be laid down to replace the asphalt removed only because Atomic Investments requested that no asphalt be placed on the easement following installation of the pipeline; and (iv) the easements do not contain any language that would entitle Atomic Investments to receive monetary compensation. Furthermore, the District restored the real property to the condition requested by Atomic Investments and is not responsible for the cost of any additional improvements performed by the owner.

In summary, Staff recommends that the Board reject this claim as without merit.

FISCAL IMPACT:



None.

STRATEGIC GOAL:

Protect the District employees, assets and community by continually improving sound risk management practices and safety programs.

LEGAL IMPACT:

None.

U Mark Walton
General Manager *VM*

Attachment "A" Committee Action
Attachment "B" Copy of Claim by Atomic Investments

P:\WORKING\CIP R022\WO 8875\Staff Reports\BD 02-07-07 Rejection of Atomic Claim.doc



ATTACHMENT A

SUBJECT/PROJECT: Rejection of Atomic Investments Claim/CIP R2022/W.O. 8875

COMMITTEE ACTION:

The Engineering, Operations and Water Resources Committee reviewed this item at a meeting held on January 23, 2007. The following comments were made:

- Atomic Investments submitted a claim in the amount of \$41,283 requesting compensation for plants, shrubs, irrigation, general grading and asphalt removed as part of the installation of a portion of the District's 30-inch recycled pipeline.
- The District had paid Atomic Investment's \$163,000 to acquire the temporary and permanent easements within their property located at 4619 Main Street, Chula Vista, and this compensation paid for the value of the trees, plants and irrigation removed in connection with the installation of the 30-inch pipeline.
- It was noted that it was never intended that the trees, shrubs and irrigation would be replaced after the installation of the pipeline as Atomic Investments had planned to pave over the area. In fact, Atomic Investments has already paved over the area.
- Atomic Investments is basing their claim on language within the permanent easement agreement which indicates that the District would restore the easement property back to its original condition, however, this portion of the agreement only refers to future repairs of the pipeline to be installed. Should the facility within the permanent easement require repairs in the future, Otay has agreed to restore the property to its original condition following the repairs.
- Atomic Investments had also requested that the District not lay asphalt over the easement following the completion of the installation of the pipeline. The District complied with their request and did not lay asphalt and restored the property to the condition requested by Atomic Investments.

Atomic's Valuation of Items Removed

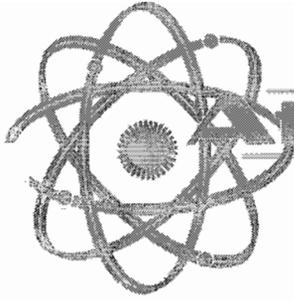
at

**490 Main Street
Chula Vista, California**

**Due to Otay Water District
30" Reclaimed Water Line**

Final Preparation Date: December 6, 2006

Attachment B



Atomic Investments, Inc.

FOUNDED 1956

3200 B4-2 HIGHLAND AVENUE
NATIONAL CITY, CALIFORNIA 91950
www.atomic-inc.com

December 5, 2006

James Bassett, Sr. Construction Manager
RBF Consulting
9755 Clairemont Mesa Boulevard, Suite 100
San Diego, CA 92124-1324
Tel. 858-614-5000 • 858-614-5001

RE: 490 Main Street, Chula Vista - Otay's Water Reclamation Project
Atomic Request for reimbursement for the value of improvements removed (or destroyed) by Otay Water District as a result of installation of 30" recycle line across Atomic's property.

Dear Jim:

Enclosed please find my estimate of the value of the improvements unavoidably removed, displaced and destroyed as a result of the construction of the 30" Reclaimed Water Line which crosses our property at 4619 Main Street, Chula Vista, CA.

My estimate of the value of these improvements is \$41,283 as shown on the Grand Total line of the estimate. This reflects the value of the pre-existing site improvements which Otay Water District removed.

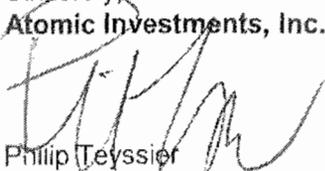
Atomic's request for reimbursement of the value of the improvements is based in part on the Grant of Permanent Easement for Underground Recycled Water Pipeline Otay Water District.

My estimate shows the work dived into three main parts. The first part is the value to restore general grading and asphalt. The second is the value of the irrigation removed, and the third is the value of the trees and shrubs removed.

For backup information, we include a site drawing identifying the items removed, pertinent original as-built drawings of project, various photographs and backup cost worksheets.

Please review the materials and give us a call with any questions you may have. We will be happy to go over the package in any level of detail you wish.

Sincerely,
Atomic Investments, Inc.


Philip Teyssier
Vice President

**Atomic's Valuation of Items Removed
at
490 Main Street
Chula Vista, California**

**Due to the Otay Water District
30" Reclaimed Water Line Installation**

Final Preparation Date: December 6, 2006

**Atomic's Valuation of Items Removed
at 490 Otay Valley Road, Chula Vista
Due to the Otay Water District 30" Reclaimed Water Line**

Table of Contents

<u>Tab</u>	<u>Description</u>
1.	Summary Worksheet Showing Value of Removed Items and Various backup summary sheets and subcontractor quotes and
2.	Grant of Permanent Easement for Underground Recycled Water Pipeline Otay Water District document
3.	Partial Site Plan Showing Removed Items by Otay (13 x 19)
4.	Selected Original Pac Bell Project Drawings (11 x17)
5.	Photographs of pre-existing conditions and conditions during pipeline construction and immediately after.

Summary Worksheet Showing Value of Removed Items by Otay Water District

490 Main Street, Chula Vista, CA

December 2006 by Atomic

<u>Item</u>	<u>Qty</u>	<u>Unit</u>	<u>Unit Cost</u>	<u>Unit Total</u>	<u>Sub Total</u>	<u>Source</u>
A. General Grading and Asphalt Replace						
Sawcut and remove strip of A/C paving for proper edge						
Sawcut AC (Baker's Concrete actual price)	377		\$0.86	\$325		Baker's Concrete Cutting Invoice 31590
Remove A/C strip about 2.67' x 408' and 6" of dirt to prepare for new.						
Figure 1 day equipt and labor (\$85 per hour lab, \$50 per hour equipt)	8	hrs	\$135.00	\$1,080		
Disposal of material (2 trips at \$120 per trip)	2	Trips	\$120.00			
Disposal Fee (\$60 per load)	2	Loads	\$60.00			
Asphalt Paving						
6" Class II base, 3" A/C Paving (subcontract)	3,519	SF	\$3.08	\$10,839		Actual cost for simular Job American Aspahtit and Concrete Inv. 10422
AC Berm (6" Standard)	406	LF	\$9.27	\$3,764	\$14,602	Per American Asphalt and Concrete Estimate 3582
B. Irrigation						
Includes replacing the irrigation along the East property line.						<i>For irrigation refer to Irrigation Piping Valuation Unit Cost Study</i>
Main Line (1 1/4" PVC Line) See attached cost breakdown	500	LF	\$2.63	\$1,315		
Lateral Assembly - See attached cost breakdown	5	EA	\$306.00	\$1,530		
Control Wires - See attached cost breakdown	1	LS	\$432.00	\$432	\$3,277	
C. Placing of Trees and Shrubs						
Replace removed full grown Calistemon Lancelotus						<i>For plants, refer to Tree and Shrub Valuation Unit Cost Study</i>
Replace Phitzer Junipers	24	EA	\$674.00	\$16,176		
Replace Phitzer Junipers	48	EA	\$116.00	\$5,568		
Top Soil (400' x 8' x 6" = 60 CYs)						
Material	60	CY	\$18.00	\$1,080		
Haul (figure 2 loads at \$120 per load)	2	EA	\$120.00	\$240		
Place (figure 3 men 1/2 day at \$85 per hour)	4	Hr	\$85.00	\$340	\$23,404	
Grand Total of Value of Items Removed					\$41,283	

Tree and Shrub Valuation Unit Cost Study

Job: 490 Main Street, Chula Vista

Date: 11/30/2006

Calistemon Lancelotus

Replace existing full grown trees with like kind			
Quote from Bricks Nursery (Jan Garrett) 760-727-2727			
36" box			\$430
Tax (7.75%)			\$33
Would take two trips for delivery at \$85 per trip			
Total of 25 trees	6.8	per tree	\$7
Total Cost per Tree (Delivered)			\$470 per tree

Excavate Hole - figure 3 men crew takes 1 hour to dig hole, .25 hours to place, .5 to backfill

Crew Cost is \$85 per hour (See other backup sheet)

Place	\$85 per hour	1.75 hours	\$149
Equip	31.25 per hour	<u>1.75</u> hours	<u>\$55</u>
			\$203 per tree

Equipment: Backhoe, \$265 per day; one week: \$1,060	1060	
Tax on Equip 7.75%	82.15	
Freight	190	
	\$1,332 per wk	
	\$33 per hour	

Total cost to place each tree

\$674 Total per Tree

Phitzer Junipers

Replace existing Junipers with 15 gal trees			
15 gal plant from Bricks Nursery (Jan Garrett) 760-727-25-7272			
15 gal			\$45
Tax (7.75%)			\$3
Delivery (included above with the trees)			\$0
			\$48

Place - figure 1/3 of price of the large trees:

Trees	203	
divide by 3	67.66667	<u>\$68</u>

Total cost to place each Juniper

\$116 Total per Juniper

Irrigation Piping Valuation Unit Cost Study

Job: 490 Main Street, Chula Vista

Date: 11/30/2006

Existing irrigation was damaged to the extent that it need to be replaced.
Replacement system based on original drawings includes a 1 1/4" dia pipe running the full length then a set of 5 laterals to supply water to each set of trees and junipers.

Main Feed Line

Qty Unit	Item	Cost per Unit	Total
500 LF	1 1/4" Sch 40 PVC Pipe	\$0.44	\$221
50 EA	1 1/4" x 1 1/4 Couplings	\$1.50	\$75
1 EA	1 1/4" x 1 1/4" Shut-Off Valve	\$10.00	\$10
2.00% %	Pipe Glue and consumables	\$312.24	\$6
7.75% %	TAX	\$312.24	\$24
	Subtotal		\$336

Labor to place pipe

8 Hrs	Labor and equipment Operator	\$85.00	\$680
1 Day	Trenching Machine (PU and Delivery)	\$300.00	\$300
	Subtotal		\$980

Total

\$1,316

Price per LF (Assume 500 LF)

\$2.63 PLF

Lateral Assembly

Consists of an 80 foot long lateral (40 feet each side of valve)
Sprinkler heads at 10 feet spacing
Electric control valve
90 deg Ells

Qty Unit	Item	Cost per Unit	Total
80 FT	3/4" Sch 40 PVC	\$0.25	\$20
2 EA	3/4" x 3/4" 90 deg ELLS	\$0.50	\$1
6 EA	3/4 x 3/4 x 1/2	\$0.80	\$5
8 EA	1/2" Risers (Threaded) x 12	\$0.33	\$3
8 EA	Heads (180 deg spray)	\$1.13	\$9
1 EA	Irritrol 1" electric valve	\$39.04	\$39
1 EA	12 x 18 Valve Box	\$23.67	\$24
3 EA	3/4" x 3/4" 90s	\$0.54	\$2
1 EA	1 1/4 x 1 1/4 x 3/4 Tee	\$1.67	\$2
80 EA	Metal stakes (#4 x 3' rebar)	\$0.25	\$20
2.00% %	Pipe Glue and consumables	\$123.48	\$2
7.75% %	TAX	\$125.95	\$10
			\$136

Labor to place each assembly

1 LS	Use same trench as main line	\$0.00	\$0
2 Hrs	Labor for each assembly, place pipe, etc.	\$85.00	\$170
1 LS	Backfilling included above with Main Line	\$0.00	\$0
			\$170

Total

\$306

Control Wires

3,600 LF	Figure 6 lines of 600 feet each	\$0.06	\$216
3,600 LF	Labor to place wire	\$0.06	\$216
	Total		\$432



AMERICAN
Asphalt & Concrete, Inc.
 General Engineering Contractors
 Ca. Lic. No. 680323

INVOICE

BILL TO
ATOMIC INVESTMENTS, INC. 3200 B4-2 HIGHLAND AVENUE NATIONAL CITY, CA. 91950

JOB LOCATION
MAIN OFFICE

DATE	INVOICE NO.	CONTRACT NO.	TERMS	REP	P.O. NO.
7/31/2006	10422	4502	NET UPON COMP...	GT	OFF / 619-263-2995
DESCRIPTION					AMOUNT
SUBGRADE TO BE +/- 1/10 PRIOR TO AMERICAN MOVE ON.					
1. INSTALL 4" OF BASE TO APPROX. 5850 S.F.					
2. INSTALL 3" OF ASPHALT TO APPROX. 5850 S.F.					
3.08 PER FOOT 5850 S.F.					18,000.00
OPTION : PAINT STILL LINGS FOR NEW ASPHALT AREA.					
					
PAID CK # 14567 \$ 9,000.00 = Date 9-19-06 By: 					PAID 14574 9,000.00 VS
WE APPRECIATE YOUR BUSINESS					Total \$18,000.00

2/2

AMERICAN ASPHALT AND CONCRETE, INC.

9011 MEMORY LANE
 SPRING VALLEY, CA 91977-2152
 Ph. (619) 589-8112 * Fax. (619) 589-8113
 CA License No. 688323

PROPOSAL / CONTRACT

DATE	ESTIMATE No.
8/9/2005	3582

NAME/ADDRESS	
ATOMIC INVESTMENTS, INC. 3200 B4-2 HIGHLAND AVENUE NATIONAL CITY, CA. 91950 ATTN: LEONARD TEYSSTER	
TERMS	REP.
NET UPON COMPLETION	RT



PROJECT
PAC BELL SITE 4619 MAIN ST CHUL VISTA
PHONE NUMBERS
619-300-7206 FAX / 619-263-2995

DESCRIPTION	TOTAL
1. SAWCUT EXISTING ASPHALT 400 L.F. 460	
2. REMOVE EXISTING ASPHALT 400 X 9 S.F. 1390	
3. GRUB BRUSH AND DISPOSE OF. 500	
4. EXCAVATE AND STOCKPILE APPROX. 1400 CUBIC YARDS OF DIRT. TO MAKE READY FOR WALL FOOTING. 10,750	
5. BACKFILL WALL BY OTHERS. 12,600	
PRICE FOR (1-5) \$12,600.00	
6. INSTALL 4" ASPHALT OVER 6" C II BASE TO 6814 S.F. \$ 18,960.00 218	
7. INSTALL 408 L.F. 6" ASPHALT MACHINE CURB \$ 3,757.00 922	
**OPTION : REMOVE VEGETATION , TREES, PLANTERS AND FENCE. ADD \$ 3,760.00	
THANK YOU FOR THIS OPPORTUNITY TO BID YOUR PROJECT.	TOTAL \$0.00

TO BE MEASURED ON COMPLETION AND INVOICED AT UNIT PRICES

- Not responsible for reflective cracking thru overlays & skin patching
- Not responsible for weed growth from adjacent property
- Crack filling does not imply crack repair.
- Not responsible for pre-existing subgrade.
- Not responsible for pre-existing engineering with respect to drainage.
- Not responsible for back-fill and compaction or back-fill installed by others.
- Engineering, testing, inspection and permit fees not included.
- Not responsible for underground utilities in areas to be removed.

AMERICAN ASPHALT AND CONCRETE, INC.

By: [Signature]
 ROBERT E. TYNER

CUSTOMER ACCEPTANCE

We accept the within proposal and agree to pay the said amount in accordance with the terms set forth. All of the terms and definitions on the reverse side are incorporated herein and made a part hereof.

Company: _____ Date: _____
 Customer Signature: _____ Customer P.O. # _____

White: Contractor's Copy * Yellow: Customer's Copy * Pink: Office Copy * Blue: Log Copy

11/2005

Guatay Equipment, Inc.
2455 Alpine Blvd. Ste. A General Engineering Contractor
Alpine, CA 91901 Lic. # A & B 847955

619-445-5165
Fax 619-445-3628

ASPHALT PROPOSAL AND CONTRACT
Proposal # 3916

Date: 8/8/05 To: Atomic Investments Leonard Teyssier
(Hereinafter "Owner") Phone No. 858-454-0888 Fax No. 858-454-1730
Guatay Equipment (Hereinafter "Contractor")

Proposes to furnish all materials and perform all labor necessary to complete the following:

1. Install 6,814 sq. ft. of base material 6" thick.
2. Install 6,814 sq. ft. of asphalt 4" thick.
3. Price for asphalt: \$17,387.00
4. Install 406 LF of asphalt berm.
5. Price for berm: \$2,842.00
6. TOTAL PRICE: \$20,229.00

Handwritten notes:
250/10
482
319

All of the above work is to be completed in a substantial and workmanlike manner according to standard practices for the sum of: Twenty Thousand Two Hundred Twenty-Nine Dollars. (\$20,229.00)

Progress payments shall be made as follows:

UPON COMPLETION

The remaining balance of the contract is to be paid within _____ days of completion. If contract is accepted, work will be substantially completed, subject to delays caused by acts of God, stormy weather, uncontrollable labor trouble, or unforeseen contingencies.

BID CONDITIONS

1. Work will be done in accordance with plans, specifications, and quantities above. Any changes will be upon a written change order, and will be considered an extra up and above the original contract.
2. Required California Preliminary Lien Information (Code Section 3097/3098) to be provided. Mechanics Lien Laws under California Code of Civil Procedures Section 1181 is enforced. Subject to credit approval and verification of California Lien Information.
3. Bid does not include any staking, engineering, permits & fees, bonds, inspection fees, concrete or compaction testing.
4. Grade to be received +/- 1" for concrete related work.
5. In the event it becomes necessary to do any drilling or shooting for rock, breaking of un-dig gable ground or buried concrete and removal to a designated disposal area; or, any unusual conditions encountered such as underground piping, underground valves, trash deposits, etc. are deemed cause for additional charges. Bid items referenced above must be dig gable with the following equipment:
6. Accounts delinquent after thirty (30) days are subject to the maximum finance charge allowed by law, along with any incurred attorney fees.
7. All work is figured to be completed in one continuous operation. Any stoppage or additional moves will be considered and extra.
8. All agreements are contingent on acts of God, shortages or other conditions beyond our control.
9. Sand or sealing of pavement is not included if not specified.
10. Roll berms will be added only if specified above.
11. Asphalt is warranted for one year from date of contract on material and workmanship unless otherwise specified.
12. If Asphalt is installed on native soil Guatay Equipment is not responsible for weed growth.

Respectfully submitted by: _____ Date: _____
(Guatay Equipment)

ACCEPTANCE

COX Business Services
Providing Internet & Telephone Service to Business 619-COX-2000

You are hereby authorized to furnish all materials and labor required to complete the work stated in this Proposal, and according to the terms thereof. I/we have read and understand the terms and conditions contained herein, any in any attachments hereto, which are made a part here of and are described as:

Owners name or Authorized Agent ACCEPTED BY: _____
(Owner Signature or Representative)

Contractors are required by law to be licensed and regulated by the Contractor's State License

Board.

Handwritten notes and signatures:
7/25/05
11/1/05



AMERICAN
Asphalt & Concrete, Inc.
 General Engineering Contractors
 Ca. Lic. No. 688323

INVOICE

BILL TO
ATOMIC INVESTMENTS, INC. 3200 B4-2 HIGHLAND AVENUE NATIONAL CITY, CA. 91950

JOB LOCATION

DATE	INVOICE NO.	CONTRACT NO.	TERMS	REP	P.O. NO.
9/22/2006	10525	4645	NET UPON COMP...	GT	OFF / 619-263-2995
DESCRIPTION					AMOUNT
1. POWER CLEAN ASPHALT TOTALING APPROX. 6500 S.F. 2. INSTALL 1" OVERLAY TO APPROX. 6500 S.F. NOTE: ADDITIONAL OVERLAY OF 4800 S.F. WILL BE DONE AT NO CHARGE.					4,950.00
WE APPRECIATE YOUR BUSINESS					Total \$4,950.00



HYDRO-SCAPE PRODUCTS, INC.®
LANDSCAPE AND IRRIGATION PRODUCTS

CORPORATE HEADQUARTERS:

SAN DIEGO
 5805 Kearny Villa Road • San Diego, California 92123-1172
 (858) 560-1600

Shipping Warehouse:
 CHS - JSTG, CA (619) 434-3000 / 110V
 11037103

*** B E D R T M T K M

ACCT# : 11054
 ORDER# : 04747420-00
 TYPE: 60
 PAGE: 1
 SHIP: CHESTER WHEEL

(619) 234-7966

(619) 234-7966

BOX TO:

SHIP TO: 0000

ATOMIC INVESTMENTS INC
 STE 40
 3800 HIGHLAND AVE
 NATIONAL CITY, CA 91950-2449

AT & T
 SERENA 619-234-7966
 4919 Main St
 Chula Vista, CA 91910

TAKEN BY: Chester Wheeler PLACED BY: FAX CUST PO#: 6041RPTG STARTING AREA:
 ORDER DATE: 11/28/06 SHIPPED DATE: 11/28/06 SHIP VIA: Our Truck TERMS: 25 Days 100% 100 PAYMENT TYPE: ON ACCOUNT

LINE	PRODUCT CODE	DESCRIPTION	ORDERED	SHIPPED	BACKORDER	UNIT	GTSC NET PRICE	UNIT EXTENSION
29	12UFBL1	12UF WIRE BLUE 2500FT M/W /Par/E	5000.00	5000.00	0.00	123.821	0.00	123.821 M 668.11
28	BCP1	CEMENT BRUSH CAP 66/04/	6.00	6.00	0.00	3.510	0.00	3.510 EA 21.06
30	12UFWHT	12UF WIRE WHITE 2500FT P1/05/	2500.00	2500.00	0.00	307.460	48.00	186.028 M 415.07
22	01FC	IRRI-TROL VALVE 1" ELEC RD/03/002/	20.00	20.00	0.00	39.038	0.00	39.038 EA 780.76
18	PEVAN	RAIN BIRD NOZZLES 5" W/1 RD/04/002/003	100.00	100.00	0.00	1.098	0.00	1.098 EA 109.80
17	PAR6	RR SHRUB ADAPT RD/04/002/004	100.00	100.00	0.00	0.561	0.00	0.561 EA 56.10
25	27101	LOW VOC BLUE QUART 2711 RD/06/001/	6.00	6.00	0.00	14.963	0.00	14.963 EA 89.78
* Include MSDS Sheet 2 For This Product With This Order *								
27	PEBR1	PVC PRIMER QUART PURPLE RD/06/002/	6.00	6.00	0.00	10.545	0.00	10.545 EA 63.27
* Include MSDS Sheet 2 For This Product With This Order *								
16	HA12-005	HARLEY STREET 90 1/2 X 1/2 NPTxFIPE RD/06/001/	100.00	100.00	0.00	0.142	0.00	0.142 EA 14.20
13	406-007	PVC BEHAG 90 3/4 X 3/4 58 RD/07/001/	40.00	40.00	0.00	0.281	0.00	0.281 EA 11.24
15	403-130	PVC BEHAG REDUCING TEE 1 X 1 X 1/2 SST RD/07/002/	100.00	100.00	0.00	0.738	0.00	0.738 EA 73.80
11	401-007	PVC BEHAG TEE 7/2 SST RD/07/001/	20.00	20.00	0.00	0.214	0.00	0.214 EA 4.28

861006

PLEASE SEE REVERSE FOR ADDITIONAL TERMS, CONDITIONS AND STORE LOCATIONS.

YES Recommendation has been made by or provided to the Seller concerning the use of pesticide covered by this invoice.

YES An operation identification number pursuant to Section 6622 is required for the purchase of this pesticide.

CUSTOMER COPY

CEMENT LIQUID NOS FLAMMABLE LIQUID
 WEIGHT _____ OR VOLUME _____ HM
 LIQUID NOS FLAMMABLE LIQUID-LTD QTY
 WEIGHT _____ OR VOLUME _____ HM



HYDRO-SCAPE PRODUCTS, INC.
LANDSCAPE AND IRRIGATION PRODUCTS

CORPORATE HEADQUARTERS:

SAN DIEGO
 5805 Kearny Villa Road • San Diego, California 92123-1172
 (858) 560-1600

Shipping Warehouse:
 CHULA VISTA, CA (619) 691-9700 (DD)
 No. 1

*** R E P L I N T ***

ACCT#: 11054
 ORDER#: 04747420-00
 TYPE: SB
 PAGE: 2
 SHGN: CHESTER NIPPLE

(619) 234-7966/

(619) 734-7966/

SOLD TO:

SHIP TO: 0007

ATOMIC INVESTMENTS INC
 37E 4B
 3290 HIGHLAND AVE
 NATIONAL CITY, CA 91950-7449

AT & T
 SERENA 519-234-7966
 4919 Main St
 Chula Vista, CA 91910

TAKEN BY: Chester Wheeler PLACED BY: FAX CUST. ARR: POA1876 STAGING AREA:
 ORDER DATE: 11/28/06 SHIPPED DATE: 11/28/06 SHIP VIA: Our Truck TERMS: 2% 10prv n30 PAYMENT TYPE: ON ACCOUNT

LINE	PRODUCT CODE	DESCRIPTION	ORDERED	SHIPPED	BACKORDER	UNIT	DISC	NET PRICE	UNIT EXTENSION
14	407-130	RD/07/002/ PVC SCH40 REDUCING 90 1 X 1/2 SxPIPE	40.00	40.00	0.00	0.911	0.00	0.911	EA 36.44
4	40E-020	RD/07/002/ PVC SCH40 90 2 X 2 SS	3.00	3.00	0.00	1.326	0.00	1.326	EA 3.98
9	401-248	RD/08/001/ PVC SCH40 REDUCING TEE 2 X 1 X 3/4 SSS	20.00	20.00	0.00	1.750	0.00	1.750	EA 35.00
3	401-020	RD/08/002/ PVC SCH40 TEE 2X2X2 SSS	2.00	2.00	0.00	1.636	0.00	1.636	EA 3.27
5	448-060	RD/08/002/ PVC SCH40 THD CAP 2 FIPT	5.00	5.00	0.00	1.608	0.00	1.608	EA 8.04
6	448-010	RD/14/001/ PVC SCH40 THD CAP 1 FIPT	4.00	4.00	0.00	0.738	0.00	0.738	EA 2.95
23	430-131	RD/14/001/ PVC SCH40 RED. MA. ROUNTER 1 X 3/4 NIPPLE	60.00	60.00	0.00	1.212	0.00	1.212	EA 48.48
10	401-133	RD/14/002/ PVC SCH40 REDUCING TEE 1X1X3/4 SSS	20.00	20.00	0.00	0.679	0.00	0.679	EA 17.58
13	PNH16	RD/15/002/ PVC NIPPLE .5" x 16" SCH 80	20.00	20.00	0.00	0.456	0.00	0.456	EA 9.12
17	PNH4	RD/15/004/ PVC NIPPLE .5" x 4"	100.00	100.00	0.00	0.126	0.00	0.126	EA 13.60

continued

PLEASE SEE REVERSE FOR ADDITIONAL TERMS, CONDITIONS AND STORE LOCATIONS.

YES Recommendation has been made by or provided to the Seller concerning the use of pesticide covered by this invoice.

YES An operation identification number pursuant to Section 6622 is required for the purchase of this pesticide

CUSTOMER COPY

CEMENT LIQUID NOS FLAMMABLE LIQUID
 WEIGHT _____ OR VOLUME _____ HM
 LIQUID NOS FLAMMABLE LIQUID-LTD QTY
 WEIGHT _____ OR VOLUME _____ HM

1026106



HYDRO-SCAPE PRODUCTS, INC.[®]
LANDSCAPE AND IRRIGATION PRODUCTS

CORPORATE HEADQUARTERS:

SAN DIEGO
 5805 Kearny Villa Road • San Diego, California 92123-1172
 (858) 560-1600

Shipping Manufacturer: (619) 521-9700/1100
 Chula Vista, CA 92010

*** R E P R I N T ***

ACCT#: 11054
 ORDER#: 04747420-00
 TYPE: SO
 PAGE: 3
 SIGN: CHESTER WHEELER

1625434-1966

1625434-1966

BOLD TO:

BOLD TO: 0007

ATOMIC INVESTMENTS INC
 STE. 40
 3200 HIGHLAND AVE
 NATIONAL CITY, CA 91950 7-48

AT & T
 SERENP 619-234-7500
 4919 Main St
 Chula Vista, CA 91910

TAKEN BY: Chester Wheeler

PLACED BY: JBY

CUST PO#: 69419915

STABING AREA:

ORDER DATE: 11/26/06

SHIPPED DATE: 11/28/06

SHIP VIA: Our Truck

TERMS: 2% 10prx n30

PAYMENT TYPE: ON ACCOUNT

INF	PRODUCT CODE	DESCRIPTION	ORDERED	SHIPPED	BACKORDER	LIST	DISC	NET PRICE	UNIT	EXTENSION
		SCR 40 RD/19/004/								
2	140	PVC PIPE SCR 40 1" SW YD/05/ /	600.00	600.00	0.00	28.220	0.00	28.220	C	169.32
		** Include MSDS Sheet For This Product with This Order **								
1	315	PVC PIPE CL 315 2" YD/05/ /	720.00	720.00	0.00	67.951	0.00	67.951	C	489.25
		** Include MSDS Sheet 9999 For This Product with This Order **								
24	PARECT	CARSON VALVE BOX & COVER YB/07/ /	20.00	20.00	0.00	19.874	0.00	19.874	EA	397.48
7	PEVES	PLAS BALL VALV 2" SS ZZ/ZZ/ZZZ/ZZZ	2.00	2.00	0.00	7.092	0.00	7.092	EA	14.19
3	PEV3/48	PLAS BALL VALV 3/4" SS ZZ/ZZ/ZZZ/ZZZ	20.00	20.00	0.00	1.866	0.00	1.866	EA	37.32

FORM#: 2

* MSDS Available upon request *

FORM#: 0099

Continued

PLEASE SEE REVERSE FOR ADDITIONAL TERMS, CONDITIONS AND STORE LOCATIONS.

YES Recommendation has been made by or provided to the Seller concerning the use of pesticide covered by this invoice.

YES An operation identification number pursuant to Section 6622 is required for the purchase of this pesticide.

CUSTOMER COPY

CEMENT LIQUID NOS FLAMMABLE LIQUID
 WEIGHT _____ OR VOLUME _____ HM
 LIQUID NOS FLAMMABLE LIQUID-LTD QTY
 WEIGHT _____ OR VOLUME _____ HM

28137



HYDRO-SCAPE PRODUCTS, INC.
LANDSCAPE AND IRRIGATION PRODUCTS

CORPORATE HEADQUARTERS:
SAN DIEGO
 5805 Kearny Villa Road • San Diego, California 92123-1172
 (858) 560-1600

Shipping Warehouse:
 CHULA VISTA, CA (619) 431-9700/1107
 15: 3

*** R E P R I N T ***

ACCT#: 11054
 ORDER#: 04747420-00
 TYPE: SD
 PAGE: 4
 SMEN: CHESTER WHEELER

(619) 234-7966/

(619) 234-7966/

SOLD TO:

SHIP TO: 0007

490

ATOMIC INVESTMENTS INC
 STE 4B
 3200 HIGHLAND AVE
 NATIONAL CITY, CA 91950-7449

AT & T
 SERENA 619-234-7966
 4919 Main St
 Chula Vista, CA 91910

ORDERED BY: Chester Wheeler PLACED BY: FAX COST CODE: P04TRRIS STAGING AREA:
 ORDER DATE: 11/28/06 SHIPPED DATE: 11/28/06 SHIP VIA: Our Truck TERMS: 2% 10day net 30 PAYMENT TYPE: ON ACCOUNT

LINE PRODUCT CODE DESCRIPTION ORDERED SHIPPED BACKORDER LIST DISC NET PRICE UNIT EXTENSION

[Handwritten Signature] 11/29/06
 RECEIVED BY SIGNATURE DATE

PLEASE PRINT NAME

27 Lines Total Total 3591.29
 Taxes 278.33
 Invoice Total 3869.62

Page 1 of 3

PLEASE SEE REVERSE FOR ADDITIONAL TERMS, CONDITIONS AND STORE LOCATIONS.

- YES Recommendation has been made by or provided to the Seller concerning the use of pesticide covered by this invoice.
- NO
- YES An operation identification number pursuant to Section 6622 is required for the purchase of this pesticide.
- NO

CUSTOMER COPY

CEMENT LIQUID NOS FLAMMABLE LIQUID	WEIGHT _____ OR VOLUME _____	HM
LIQUID NOS FLAMMABLE LIQUID-LTD QTY	WEIGHT _____ OR VOLUME _____	HM

1028138

United Rentals, Inc.

Fax

Date: 11/30/06

Time: 13:45

QUOTE

**** COPY ****

To: CHRISTY - V E PHIL T.

Company: ATOMIC ELEMENTS INC

Message: _____

From: CHRIS JONES

Location: UNITED RENTALS

Phone: 619-267-2885

Fax #: 619-420-8483



If you have a problem with this transmission please call the number listed above.



20170 STREET
CHULA VISTA, CA 91910
619-422-1106

QUOTE

** COPY **

Job Site

ATOMIC INVESTMENTS LLC
OTAY LAKES RD
CHULA VISTA, CA 91906

C#: 619-234-7966 J#: 619-234-7966

Customer

ATOMIC INVESTMENTS LLC
3000 HIGHLAND AVE #4-0
NATIONAL CITY, OH 91840

Customer... 103724
Contract #... 61276398
Contract dt... 11/30/06
Date out... 11/30/06 10:43 AM
Date Due In... 12/01/06 10:43 AM

Job Loc... OTAY LAKES RD, CHULA VISTA
Job No... 22- ATOMIC INVESTMEN
P.O. #... QUOTE
Ordered By... PHIL
Written by... URS44JB
Salesperson... 4282
Terms... Net 30 Days

PLEASE REMIT PAYMENT TO:
UNITED RENTALS NORTHWEST, INC.
PO BOX 79334
CITY OF INDUSTRY, CA 91716-9333

Qty	Equipment #	Min	Day	Week	4 Week	Amount
1	SKID STEER FORK ATTACHMENT	43.00	43.00	172.00	473.00	43.00
Sub-total:						43.00
Tax:						3.34
Estimated Total:						46.34

* ENVIRONMENTAL CHARGE: The items indicated are subject to an environmental charge which is designed to recover the company's direct and indirect expenses for the handling, managing and disposing of waste products, hazardous materials, and other environmental waste. This is not a government mandated charge.
FUEL: Fuel charges do not include federal, state or local taxes or fees.

OPTIONAL RENTAL PROTECTION PLAN: **THE RENTAL PROTECTION PLAN IS NOT INSURANCE!** Upon accepting the Optional Rental Protection Plan, the Customer agrees to pay a charge equal to 11% of the rental charges for Equipment Covered by the Rental Protection Plan in return, as set out on the back page. United agrees to waive certain claims for accidents, damage to said covered Equipment, resulting from fire, theft or loss. Customer remains liable for all damage and loss due to theft listed under "12. Rental Protection Plan provisions in the Terms and Conditions on back page, including Customer's negligence. Customer Accepts () Customer Declines ()

READ BEFORE SIGNING: Order hereby agrees to accept the Equipment as less defined in the Terms and Conditions on the reverse side and Customer hereby accepts all TERMS AND CONDITIONS listed in the rental agreement, including the Terms and Conditions set forth on the reverse side, which the undersigned has read and understands. REMINDERS: (1) Rates do not include fuel or delivery; (2) Optional Rental Protection Plan charge is 11% of the total rental charge for covered equipment; (3) Customer pays for all time the Equipment is out, including Saturdays, Sundays and Holidays; (4) This rental agreement supersedes all other rental agreements or forms contained in any of Customer's agreements or forms; (5) Customer assumes all risk and is responsible for all damages and other costs, including late charges. Details of the above as well as other obligations and responsibilities are contained in the TERMS AND CONDITIONS ON REVERSE. THE INDIVIDUAL SIGNING BELOW AS OR ON BEHALF OF CUSTOMER (1) AGREES TO ALL OF THE TERMS AND CONDITIONS ON THE REVERSE SIDE OF THIS RENTAL AGREEMENT, (2) ACKNOWLEDGES RECEIPT OF THE EQUIPMENT IN GOOD WORKING ORDER AND (3) IS FULLY FAMILIAR WITH ITS OPERATION AND USE.

X

CUSTOMER SIGNATURE DATE NAME PRINTED DELIVERED BY DATE

A LARGER FONT COPY OF THE TERMS AND CONDITIONS IS AVAILABLE UPON REQUEST.

United Rentals, Inc.

Fax

Date: 11/30/06

Time: 13:39

QUOTE
** COPY **

To: CHRISTY V MCF PILLI TL

Company: ATOMIC INVESTMENTS INC

Message: _____

From: JESSE WOTCO

Location: UNITED RENTALS

Phone: 619-421-0768

Fax #: 619-421-0768



If you have a problem with this transmission please call the number listed above.



501 *C* STREET
CHULA VISTA, CA 91910
619-422-1106

QUOTE

** COPY **

Job Site

ATOMIC INVESTMENTS INC
OTAY LAKES RD
CHULA VISTA, CA 91904

C#: 619-234-7966 Fax: 619-234-7960

Customer

ATOMIC INVESTMENTS INC
3700 HIGHLAND AVE #201
NATIONAL CITY, CA 92061

Customer... 103724
Contract #... 61275942
Contract dt. 11/30/06
Date out... 11/30/06 10:24 AM
Date Due In. 12/01/06 10:24 AM
Job Loc.... OTAY LAKES RD, CHULA VISTA
Job No..... 22- ATOMIC INVESTMEN
P.O. #..... QUOTE
Ordered By.. PHIL TREYBER
Written by.. UR544JB
Salesperson. 4282
Terms..... Net 30 Days

PLEASE RENT PAYMENT TO:
UNITED RENTALS NORTHWEST, INC.
PO BOX 79334
CITY OF INDUSTRY, CA 91716-9333

Qty	Equipment #	Min	Day	Week	4 Week	Amount
1	SKID STEER LOADER1700 1895LB* 9030071	179.00	179.00	695.00	2020.00	179.00
1	SKID STEER BUCKET GR. IN BROOK					N/C
SALES ITEMS:						
Qty	Item number	Stock class	Unit	Price		Amount
1	ENV ENVIRONMENTAL CHARGE	NCI	EA	.850		.85
	DELIVERY CHARGE					95.00
	PICKUP CHARGE					95.00
Sub-total:						369.85
Tax:						21.31
Estimated Total:						391.16

* ENVIRONMENTAL CHARGE: The items described above are subject to an environmental charge which is designed to recover the company's direct and indirect expenses for the handling, managing and disposing of waste products, hazardous materials and related clean-up costs. This is a government mandated charge.
FUEL: Fuel charges do not include federal, state or local taxes.

OPTIONAL RENTAL PROTECTION PLAN **THE RENTAL PROTECTION PLAN IS NOT INSURANCE!** Upon accepting the Optional Rental Protection Plan, the Customer agrees to pay a charge (equal to 125% of the rental charge on Equipment Covered) in full (as shown on the back page) in return, as set out on the back page. United agrees to waive certain claims for accidental damage to such covered Equipment occurring during normal use and care. Customer remains liable for all damages and loss due to theft listed under The Rental Protection Plan provisions in the Terms and Conditions on back page, including Customer's negligence. **Customer Accepts ()** **Customer Declines ()**

READ BEFORE SIGNING: United hereby leases to Customer the Equipment as defined in the Terms and Conditions on the reverse side and Customer hereby accepts all **TERMS AND CONDITIONS** listed in the rental agreement, including the Terms and Conditions on the reverse side, when the undersigned has read and understands. **REMARKS:** (1) Rates do not include fuel or delivery; (2) Optional Rental Protection Plan charge is 125% of the total rental charge for selected equipment; (3) Customer pays for all time the Equipment is out, including Saturdays, Sundays and Holidays; (4) The rental agreement supersedes all other quotes, orders, contracts and conditions contained in any of Customer's agreements or forms; (5) Customer assumes all risk and is responsible for all damages and other costs, including late charges. Details of the above services, their obligations and responsibilities are contained in the **TERMS AND CONDITIONS ON REVERSE THE INDIVIDUAL SIGNING BELOW AS OR ON BEHALF OF CUSTOMER.** (6) AGREES TO ACCEPT THE TERMS AND CONDITIONS ON THE REVERSE SIDE OF THIS RENTAL AGREEMENT. (7) ACKNOWLEDGES RECEIPT OF THE EQUIPMENT IN GOOD WORKING ORDER AND IS FAMILIAR WITH ITS OPERATION AND USE.

X

CUSTOMER SIGNATURE DATE NAME PRINTED DELIVERED BY DATE

A LARGER PRINT COPY OF THE TERMS AND CONDITIONS IS AVAILABLE UPON REQUEST.

CONSTRUCTION RESIDUE RECYCLING

855 ENERGY WAY

CHULA VISTA, CA 91911

OFFICE (619) 656-1836 FAX (619) 656-6733

CERTIFIED PUBLIC SCALE

**OUR BUSINESS HOUR'S: 7AM / 5PM , MONDAY
THRU SATURDAY, CLOSED ON SUNDAY'S.**

**WE SELL RECYCLE CALTRANS SPEC CLASS 2 BASE, COMPOST & MULCH
WE ALSO RECYCLE USED ASPHALT & CONCRETE
ALL VEHICLES ARE SUBJECT TO BE WEIGHED**

CLASS 2 BASE: ASK for QUOTE

**COMPOST: \$15.00 PER TON
(PLUS TAX)**

**USED ASPHALT/CONCRETE: \$10.00 PER TON
MINIMUM LOADS: \$25.00**

SMALL TRAILERS MUST BE WEIGHED

BOBTAIL: \$40.00

TEN WHEELER: \$60.00

END DUMP: \$90.00

PUP & TRK: \$90.00

**SURCHARGE'S WILL BE ADDED TO MIXED LOADS WITH CLAY TILE & BRICK, WIRE
MESH & REBAR, PETROMAT & DIRT (IF OVER 5 %) & OVERSIZE (IF OVER 2X4X6").**

**WE DON'T EXCEPT LOAD'S WITH GREENS, WOOD CHIPS,
ROOTS, STUCCO, DRYWALL, GLASS, CLAY & TRASH.**

PLEASE CALL FOR QUOTE'S FOR CLASS 2 BASE & DUMPING USED ASPHALT/CONCRETE

WE MAY BE TAKING DIRT IN THE FUTURE. (ASK FOR DETAILS)

FIRE WOOD FORSALE (PLEASE ask ATTENEND ON DUTY)

"THANK YOU FOR YOUR CONTINUED PATRONAGE"

RECORDING REQUESTED BY and
AFTER RECORDING MAIL TO:

OTAY WATER DISTRICT
2554 SWEETWATER SPRINGS BOULEVARD
SPRING VALLEY, CA 91978-2096

NO FEES DUE - FOR BENEFIT OF PUBLIC AGENCY
APN: 624-060-45

(Space above this line for County Recorders Use Only)
No documentary tax due R & T 11922 (amended)

**GRANT OF PERMANENT EASEMENT FOR UNDERGROUND RECYCLED WATER PIPELINE
OTAY WATER DISTRICT**

For good and valuable consideration, receipt and sufficiency of which is hereby acknowledged, the undersigned **ATOMIC INVESTMENTS, INC., A CALIFORNIA CORPORATION**, (Atomic) as Grantor hereby **GRANTS TO OTAY WATER DISTRICT**, a municipal water district formed under the Municipal Water District Law of 1911, as amended, situated in the County of San Diego, State of California, ("District") as Grantee, *a permanent easement, consisting of 0.212 acres more or less, (as described in Exhibit "A" & "B") for the purpose ("Use") of placing, and maintaining pipeline(s), including a 30 inch diameter underground recycled water pipeline and certain necessary appurtenant accessories*, together with the right to construct, operate, maintain, repair and replace said facilities, and the right of ingress and egress for such purposes. Said pipeline and accessories, are to be constructed substantially, subject to minor revisions, as shown on **Exhibit "C" - District's Drawings numbered as C-25 marked as revision 3 dated August 4, 2005 and C-26 marked as revision 1 dated July 19, 2005**, ("District Facilities", or "Facilities"). All said Facilities are to be below grade except one (1) single Air Release/Air Vacuum assembly device (callout detail WA-05, 1-6) which shall be located at the west face line of the proposed retaining wall to be located on the east property line of Grantor's property.

Following said construction, and time to time maintenance, repair and replacement of said Facilities ("work operation") Grantee shall, at its sole cost, restore Grantor's improvements, in equivalent type and quality of materials and thickness of respective sections, to the condition existing at the time of Grantee's respective work operation, however, Grantee shall not be required to replace specialty decorative surface finishes such as ornamental, decorative or colored concrete or tiles.

The Legal Description of the said easement is shown on **EXHIBIT "A" (Legal Description - Permanent Pipeline Easement APN 624-060-45)**, and engineering plan drawing **Exhibit "B" SHEET(s) 1 of 2 and 2 of 2**, (but the permanent easement area is limited to the area designated as "WATER PIPE LINE EASEMENT AREA = 0.212 ACRES"). Each said Exhibit is attached hereto and made a part hereof.

WD EASEMENT NO. _____ OWD W.O.R2022/8875

Grantor reserves the right to use and maintain the land and easement areas above and below grade for all purposes (including but not limited to driveway, parking, paving, walks, curbs, landscaping and decorative surfaces and any others) which do not prevent the operation and maintenance of the said Use for the purpose hereby granted. Grantee may remove from the easement any building, structure, improvement or other encroachment thereon which prevents the Use for the purpose hereby granted.

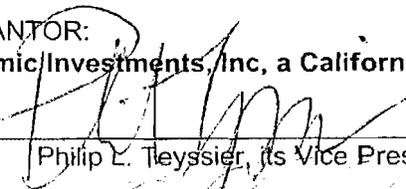
Relative to ground elevation grades existing in the easement surface area at the time of this document ("existing grades"). Grantor shall not decrease (or permit decrease) of the said existing grades which would result in the Cover of less than four feet (4'), nor shall Grantor increase (or permit increase) of the said existing grade, without District's written approval, which approval shall not be unreasonably withheld. Cover is defined herein as the vertical depth from the finish surface grade to the top surface of the 30" pipeline ("Cover").

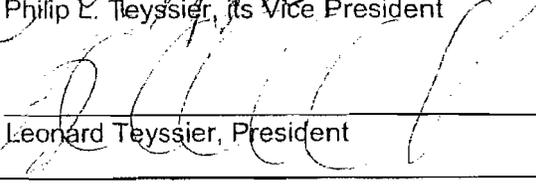
Grantor may, at Grantor's expense, and subject to Grantee's prior written consent (which consent shall not be unreasonably withheld) relocate the above mentioned Facilities in the event such conflict with future development of said property, provided that Grantor does not cause discontinuance of service to any area, and provided, further, that Grantee receives without expenses to Grantee, an easement comparable to this easement for said relocated facilities. Grantee shall not be required to relocate or alter in any way the Facilities installed pursuant to this grant of easement, or to bear any cost in connection therewith as a result of changes in the location of said Facilities.

Grantee shall have the right to transfer and assign this easement to its successors in interest for the purpose of their operation, maintenance and management of the District Facilities on the subject site in accordance with the specified Use.

IN WITNESS WHEREOF, Grantor has executed this Grant of Easement as of this 23rd day of August, 2005.

GRANTOR:
Atomic Investments, Inc, a California Corporation

By: 
Philip L. Teyssier, its Vice President

By: 
Leonard Teyssier, President

CERTIFICATE OF ACCEPTANCE

This is to certify that the interest in real property conveyed by the easement grant dated August 23, from ATOMIC INVESTMENTS, INC. to OTAY WATER DISTRICT, a political corporation and/or governmental agency, is hereby accepted by order of the BOARD OF DIRECTORS pursuant to the authority conferred by Resolution No. 1829, adopted on February 23, 1981, and the grantee consents to recordation thereof by its duly authorized officer.

Dated _____ By _____, District Secretary

State of California
County of San Diego

On 7-23-05 before me, Serena Contreras,
DATE NAME AND TITLE OF NOTARY

personally appeared Philip L. Teyssie and Leonard C. Teyssie
NAME(S) of SIGNER(S)

personally known to me - OR ~ proved to me of the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by her/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which there person(s) acted, executed the instrument.

Witness my hand and official seal

Serena Contreras
Signature of Notary



CAPACITY CLAIMED BY SIGNER

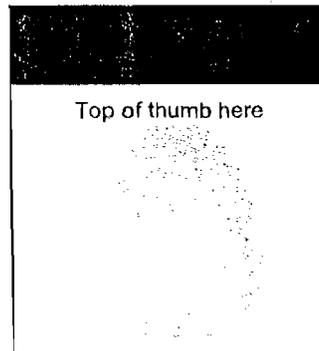
- INDIVIDUAL(S)
- CORPORATE _____
- OFFICER(S) _____
- PARTNER(S)
- ATTORNEY-IN-FACT
- TRUSTEE(S)
- SUBSCRIBING WITNESS
- GUARDIAN/CONSERVATOR
- OTHER: _____

SIGNER IS REPRESENTING
NAME OF PERSON(S) OR ENTITY(IES)

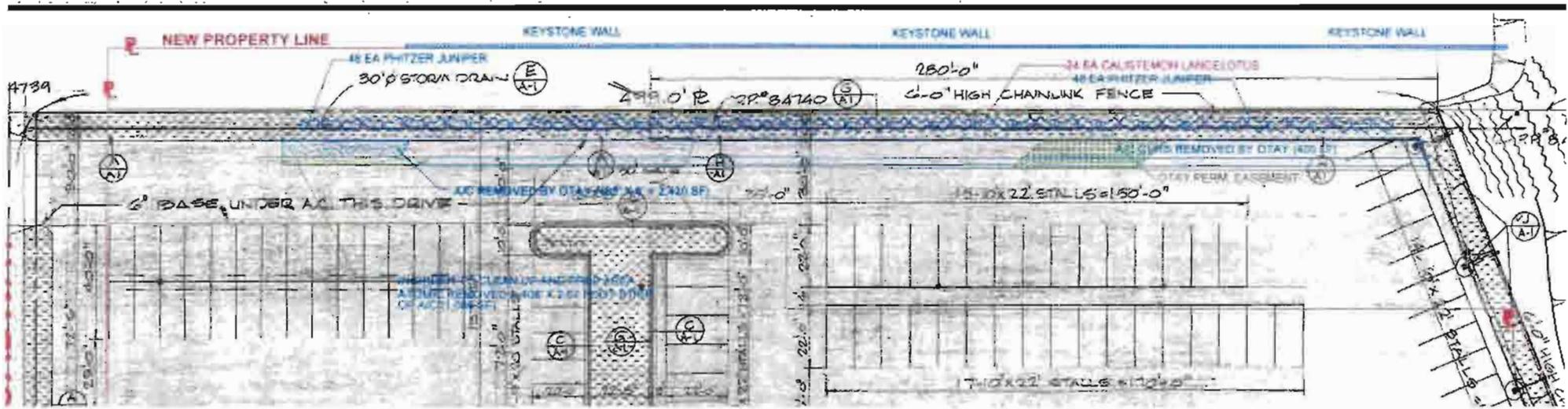
ATTENTION NOTARY: Although the information requested below is OPTIONAL, it could prevent fraudulent attachment of this certificate to unauthorized document.

THIS CERTIFICATE MUST BE ATTACHED TO THE DOCUMENT DESCRIBED AT RIGHT:

Title of Type of Document Grant of Permanent Easement
 Number of Pages 8 Date of Document _____
 Signer(s) Other Than Named Above _____



thumbprint\F:\L\DATA\PROPERTY\P04\WaterDistrict\Easement Documents\LET Revisions.as of Aug 22 2005\Day WD Temporary Easement Aug 22 2005 Rev a.wpd

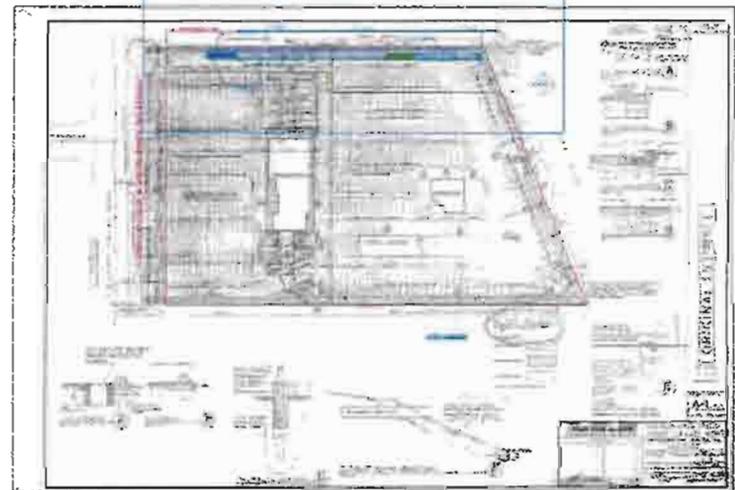


PARTIAL SITE PLAN SHOWING REMOVED ITEMS BY OTAY

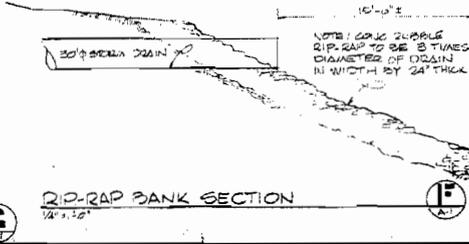
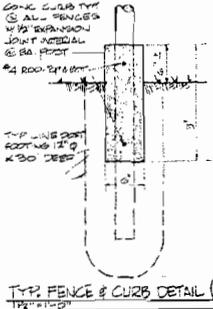
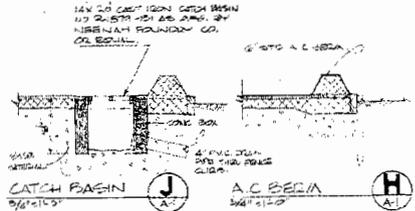
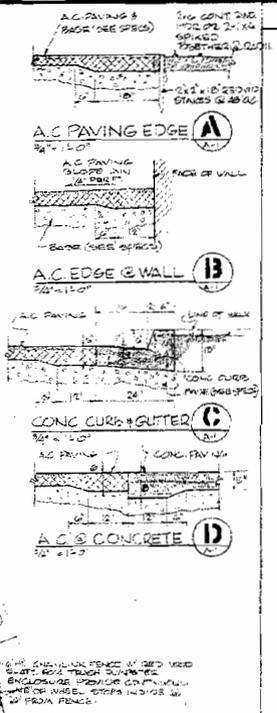
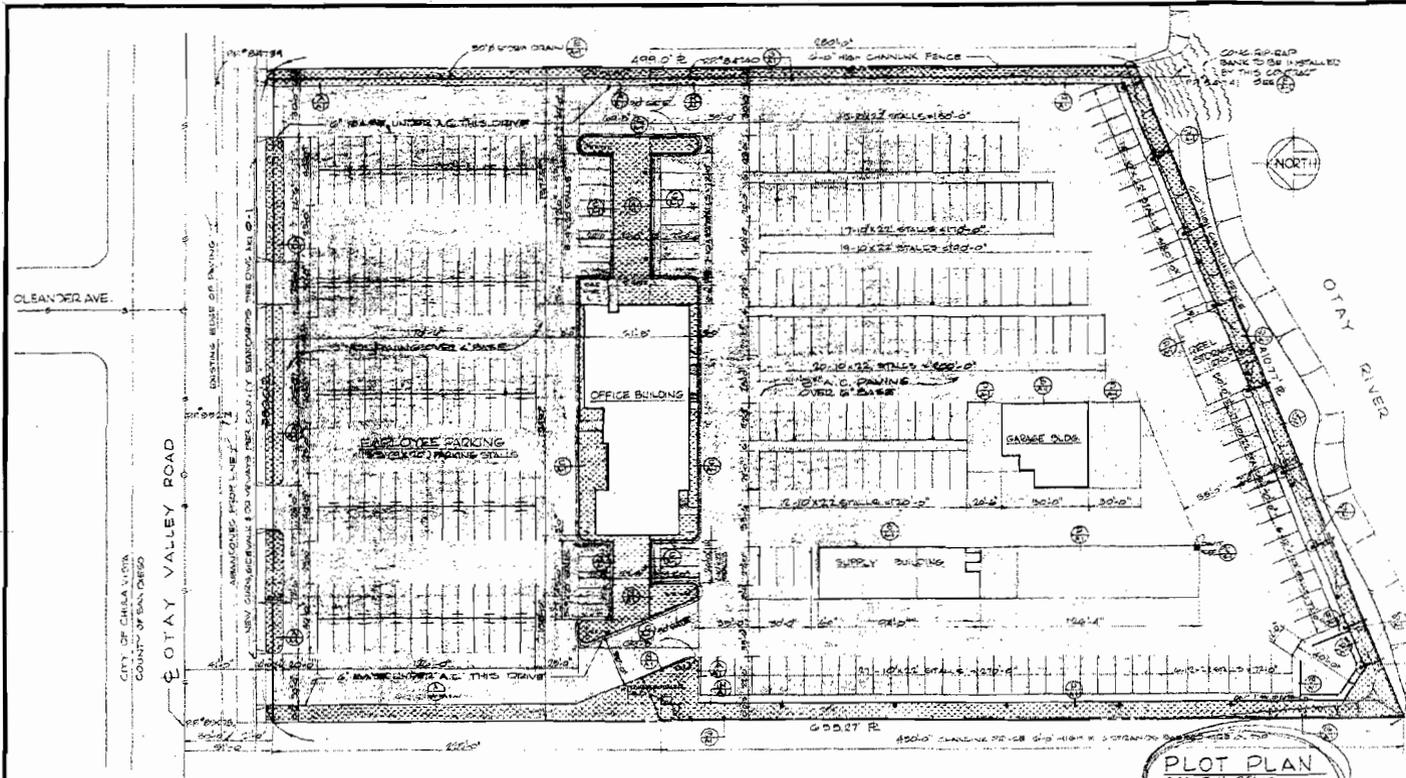
490 MAIN STREET, CHULA VISTA, CA
 PREPARED BY ATOMIC (DEC 2005)

SCALE: 1"=30'

SUBJECT AREA



OVERALL SITE PLAN - (ORIGINAL DRAWINGS)



STORM DRAIN (E)

NOTE: CONDITIONAL USE PERMIT NO. P72-79.

ISSUE

ORIGINAL ESTIMATE

RECEIVED
DEC 19 1972
MOUNTAIN STATE CO.

REFERENCE SHEET NO.
A-1 OF 2
4 OF 24 TOTAL SHEETS

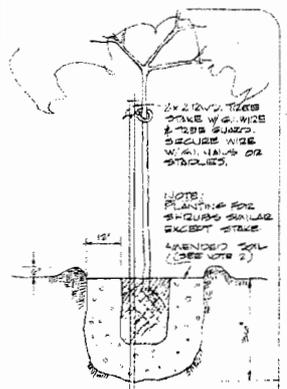
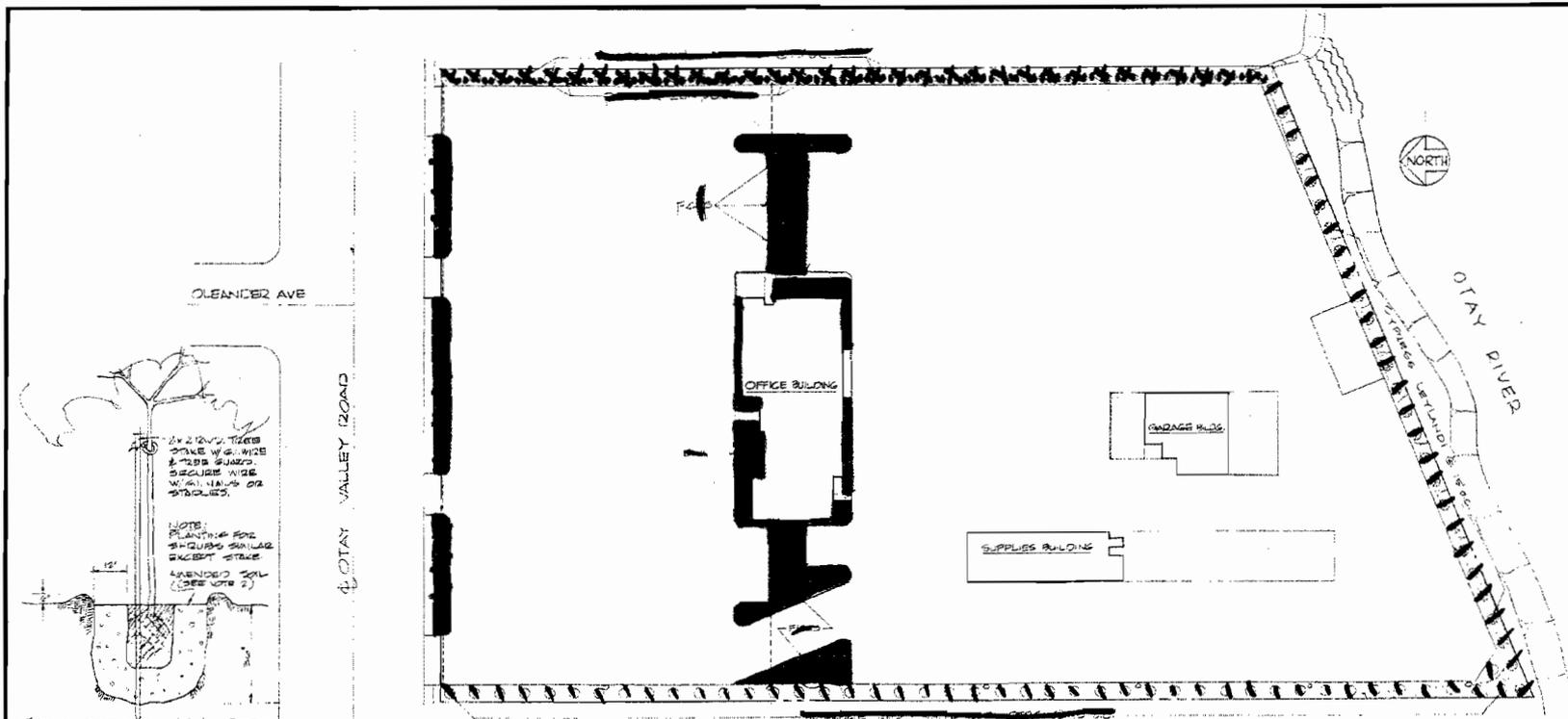
PREPARED BY: **J. RICHARD WILSON AIA ARCHITECT**
1017 W. 54th STREET, SUITE 200, CHULA VISTA, CALIF. 92011

CLIENT: **CHULA VISTA P.O.C. OTAY VALLEY ROAD**
THE PACIFIC TEL. AND TEL. CO.

PLOT PLAN & DETAILS

DATE: MAY 21, 1972

SCALE: AS SHOWN



TYPICAL TREE PLANTING DETAIL
 1/8" SCALE

GENERAL NOTES

1. ALL IVY PLANTING AREAS SHALL BE MULCHED WITH REDWOOD SAWDUST @ THE RATE OF NINE (9) CUBIC FEET PER ONE (1000) SQUARE FEET OF AREA.
2. EACH SHURP & TREE SHALL BE BACK FILLED WITH AMENDED SOIL (AMENDED @ THE RATE OF 25% REDWOOD SAWDUST TO 75% SOIL).
3. ALL PLANTS SHALL BE GUARANTEED TO MAINTAIN HEALTHY VIGOROUS GROWTH AND APPEARANCE FOR A PERIOD OF SIX (6) MONTHS AFTER DATE OF ACCEPTANCE BY OWNER.
4. CONTRACTOR SHALL BE RESPONSIBLE FOR MAINTENANCE AND CARE OF LANDSCAPING FOR 90 DAYS AFTER ACCEPTANCE BY OWNER.

PLANT LIST & LEGEND

QUANTITY	SIZE	DESCRIPTION	SYMBOL
1	5 GAL	CAL STEADY LANCELOTUS	○ ○ ○ ○ ○
1	5 GAL	PARTIER JUNIPERS	○ ○ ○ ○ ○
1	5 GAL	CYPRESS LEYLANDI	○ ○ ○ ○ ○
1	5 GAL	RED & WHITE OLEANDERS	○ ○ ○ ○ ○
1	15 GAL	FIGU RETUSA (TREES)	○ ○ ○ ○ ○
1	15 GAL	ULMUS SPERMATOPHYTES (FLA)	○ ○ ○ ○ ○
1	1 GAL	NEEDLE POINT IVY	***
1	1 GAL	TAX JUNIPERS	***

IRRIGATION SYSTEM

1. PIPING - SCHEDULE 40 PVC
2. SPRINKLER HEADS - SHORPION OR EQUAL:
 3/4" HEADS @ 10' O.C. UNLESS NOTED OTHERWISE.
 1" HEADS @ 6' O.C. IN NARROW AREAS.
3. THIS CONTRACTOR SHALL FURNISH & INSTALL 1" LATERALS AT EACH OUTLET & WITH TEN (10) HOURS MAXIMUM EACH LATERAL SHALL ADEQUATE COVERAGE FOR ALL PLANTINGS.
4. SUPPLY LINE WITH 1" SUBMITS AND 3/4" ANTI-SIPHON VALVES AND BOXES WILL BE FURNISHED BY OTHERS. (SEE DRAWING PH 05A FOR LOCATIONS)

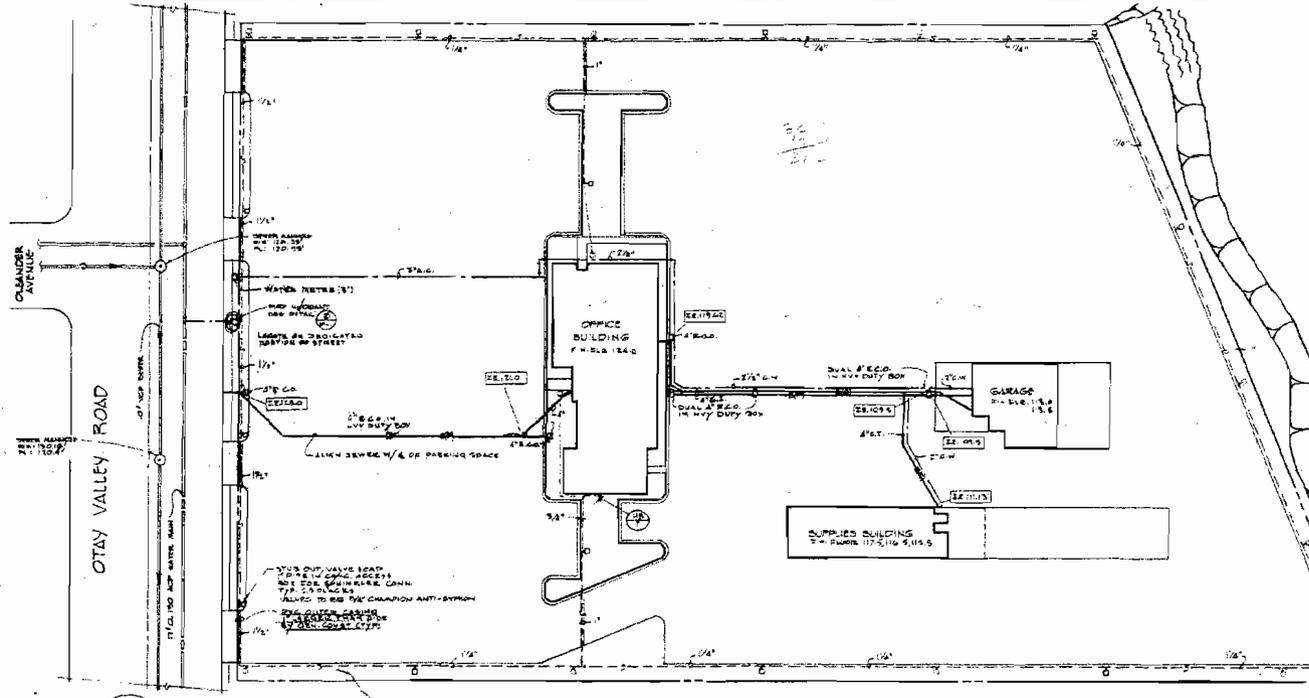
LANDSCAPE PLAN

SCALE: 1" = 20' - 0"

ORIGINAL ESTIMATE

KS02110
 DRAWN BY
 CHECKED BY
 DATE
 1 OF 1
 12 OF 12 TOTAL SHEETS

PLANNING ARCHITECTURE ENGINEERING J. RICHARD WILSON AIA ARCHITECT 275 W. MADISON AVENUE & 15th FLOOR, CALIF., 94414	CHULAVISTA P.O.C. OTAY VALLEY ROAD THE PACIFIC TEL. AND TEL. CO. OFFICE OF LANDSCAPE ARCHITECTURE 1000 W. 15th STREET, SUITE 100 CHULA VISTA, CALIFORNIA
PROJECT NO. DATE	LANDSCAPE PLAN DRAWN BY DATE CHECKED BY DATE



MINIMUM SPECIFICATIONS

STREET PRESSURE: 100 PSI
 3/4" WATER: 100 PSI
 PIPE SIZES: BASED ON 1/4" D.P.D. & 50' TOTAL DEVELOPED LENGTH:

SIZE	1/2"	3/4"	1"	1-1/4"	1-1/2"	2"	3"	TOTAL
DN	24	13	23	17	75	140	230	
FEATURES	QTY	EXT. UNITS	TOTAL					
WATER CLOSET	7	10	70					
DRINKING FOUNTAIN	1	1	15					
LAUNDRY	1	1	15					
DRINKING FOUNTAIN	1	1	15					
MOUSE TRAP	11	1	31					
SERVICE SINK	1	1	15					
WINDOW WASHERS	1	1	15					
STEAM CLEANER	1	1	15					
			150					

SPRINKLER HEADS: 250 240

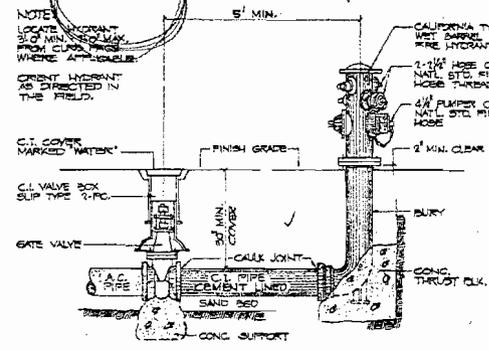
PROVIDE 1/2" EACH BUILDING SET (7) PSI OUTLET PRESSURE
 MAX. LENGTH OF RUN FROM REG. 40'
 NO ELEVATION LOSS
 LAST VALVE LOSS: 25 PSI
 AVAILABLE P.D.: 75.00' x 1.5000 = 112.50'

PIPE SIZE	DN	VELOCITY FPS	FLUSH TIME (MIN)	FLUSH VALVE PATTERN
1/2"	6-2 1/2"	7-3/4"	7	1-3/4"
3/4"	11	7-1/2"	11	2-3/4"
1"	15	7-1/4"	15	3-1/4"
1-1/4"	21	8	20	4-1/4"
1-1/2"	27	8	25	5-1/4"
2"	36	8-2/3"	30	6-1/4"
3"	45	9-1/4"	35	7-1/4"

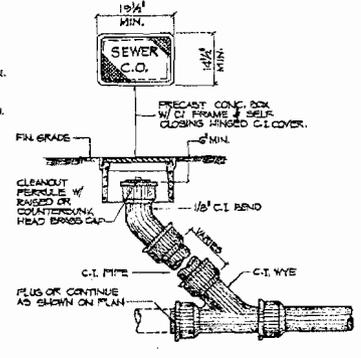
LEGEND

- W SANITARY SEWER WASTE
- V VENT
- CW COLD WATER
- HW HOT WATER
- CLD ISO TYPE II PVC
- RD ROOF DRAINAGE
- S SANITARY SEWER
- G GATE VALVE
- R RADIANT HEATING
- P PRESSURE REGULATING VALVE
- U UNION
- F FLEX HYDRANT
- W WALK BEHIND FIRE HYDRANT
- M METER HAMMER ARRESTER
- M METER
- AP ACCESS PANEL
- FC FLOOR CLEANOUT
- EC EXTERIOR CLEANOUT
- WC WALL CLEANOUT
- VV VALVE BOX
- AB ACCESS BOX
- DS DOWNPOUT
- E ELEVATION
- P.C. POINT OF CONNECTION
- U/G UNDERGROUND
- U/G UNDER OTHER SECTION OF SPEC.
- V.R. VENT TROUGH ROOF

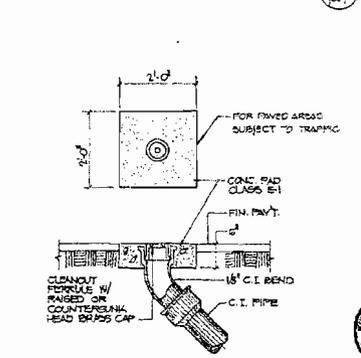
PLUMBING SITE PLAN
 SCALE: 1/4" = 10'-0"



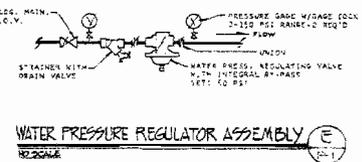
FIRE HYDRANT DETAIL
 NO SCALE



SEWER CLEANOUT DETAIL (B)
 NO SCALE



SEWER CLEANOUT DETAIL (C)
 NO SCALE



WATER PRESSURE REGULATOR ASSEMBLY
 NO SCALE

ORIGINAL ESTIMATE

RECEIVED
 12-1 OF 4

REICHARD WILSON AN ARCHITECT
 200 W. BROADWAY - SUITE 100 - SAN ANTONIO, TEXAS 78205

CHULA VISTA P.O.C. OTAY VALLEY ROAD
 THE PACIFIC TEL. AND TEL. CO.
 PLUMBING SITE PLAN & DETAILS

DATE: 12-1-78
 DRAWN BY: R.W. WILSON
 CHECKED BY: R.W. WILSON



AUG 9 2006



MAY 15 2006





MAY 15 2006

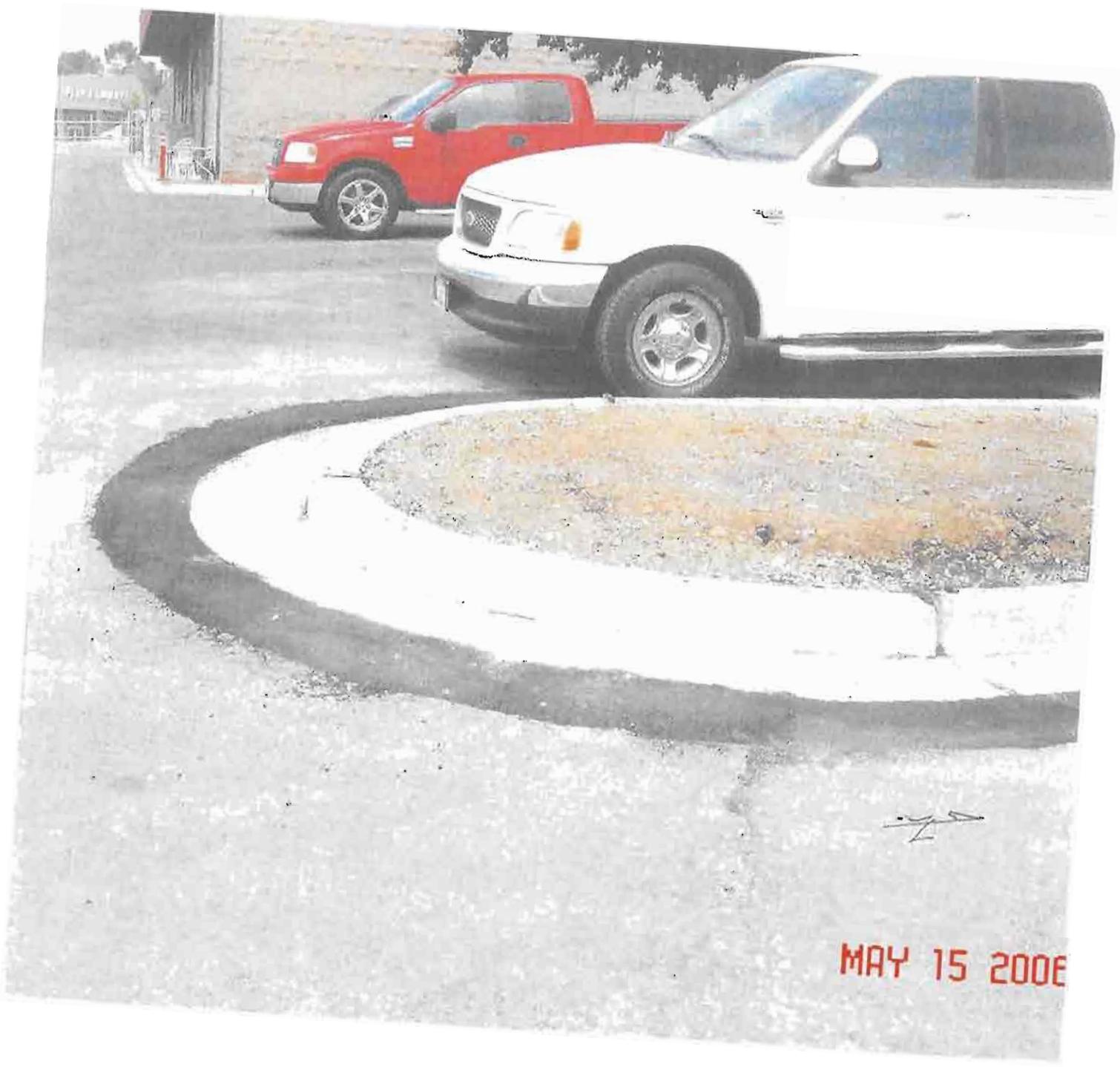
027552



MAY 15 2006



MAY 15 2006



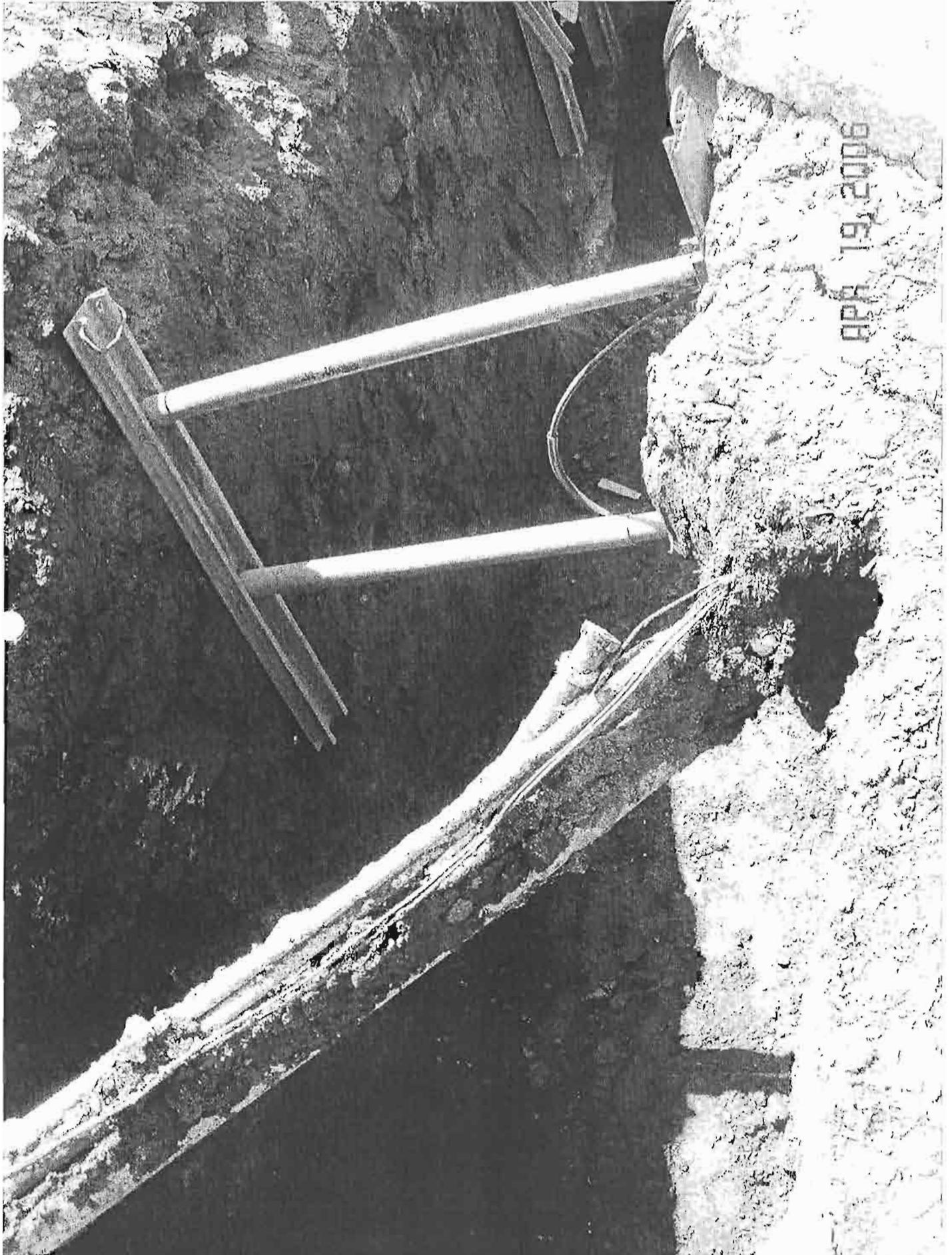
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9

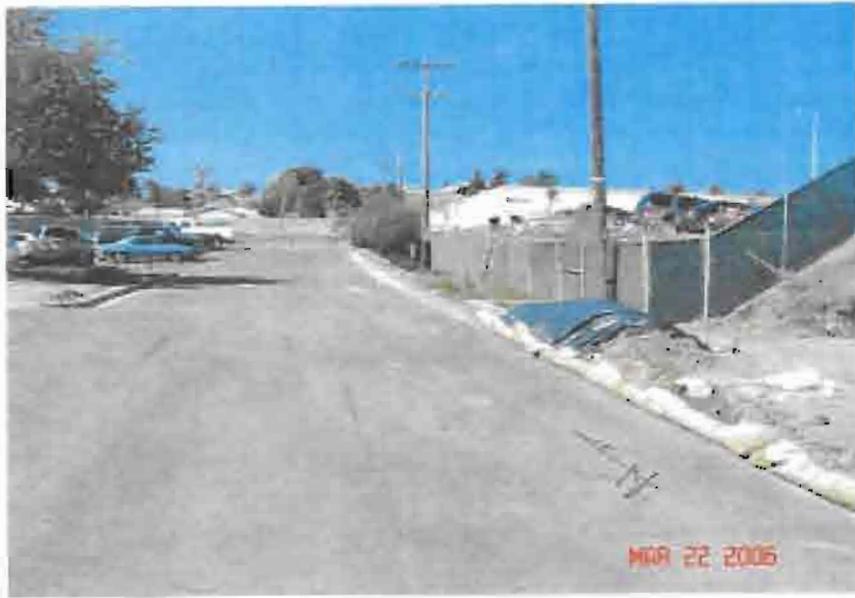
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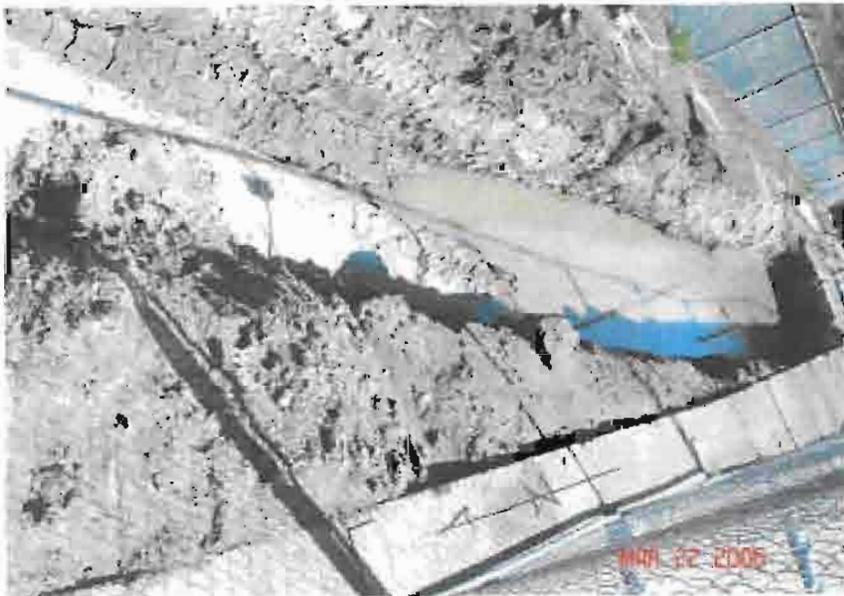
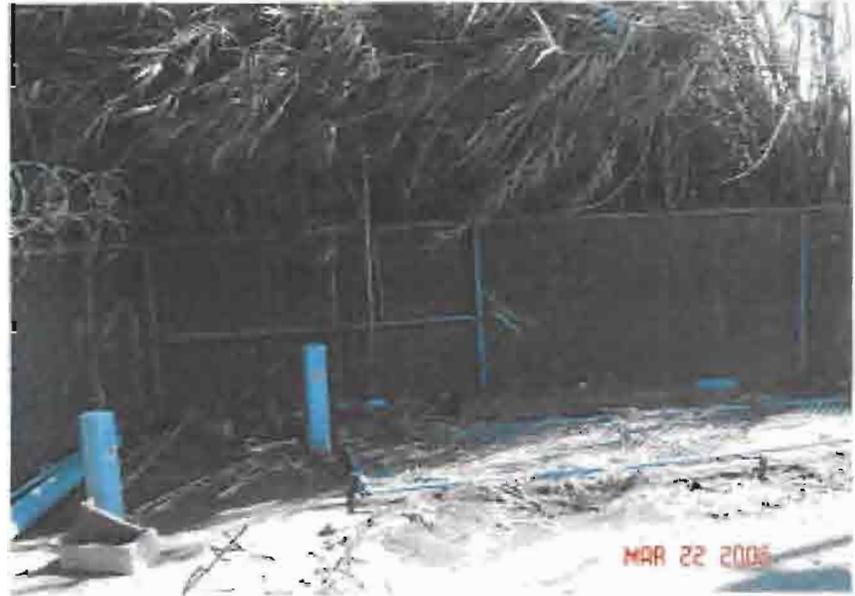


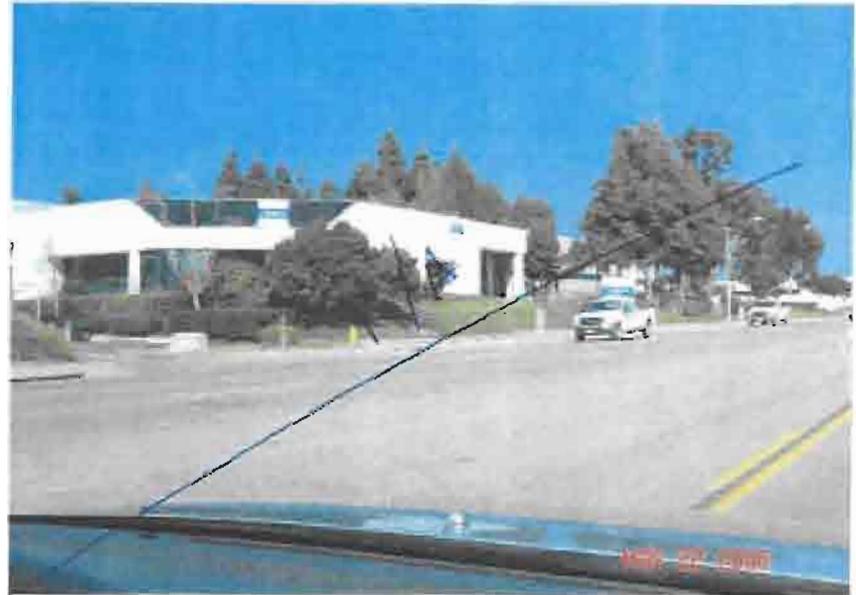




APL 1F 1003

















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02-26-06 # 0012



02-06-06 0013 21







0306-06 05/15 24











03-06-06 = 0017



09/06/08 at 00:21 30



03 06 06 # 0019

31





10-31-05 10:14 AM



10-10-05 NY 0013



10-10-23 = 2019



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8-20-05 - 10:30 AM

5-12-07 - 11

10





B-13-05 10417H



AGENDA ITEM 5f

STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	February 7, 2007
SUBMITTED BY:	Rod Posada, <i>Rod Posada (j)</i> Chief, Engineering	W.O./G.F. NO:	N/A DIV. NO. All
APPROVED BY: (Chief)	Rod Posada, <i>Rod Posada (j)</i> Chief, Engineering		
APPROVED BY: (Asst. GM):	Manny Magaña, <i>M Magaña</i> Assistant General Manager, Engineering and Operations		
SUBJECT:	Adopt Board Policy 49 - Service to Affordable and Low Income Households		

GENERAL MANAGER'S RECOMMENDATION:

Adopt Resolution No. 4094 adopting Policy No. 49 - Service to Affordable and Low Income Households.

COMMITTEE ACTION:

Please see Attachment A.

PURPOSE:

To bring the District into compliance with Senate Bill 1087, Government Code Section 65589.7, and Water Code Section 10631.

ANALYSIS:

California Senate Bill 1087, approved on October 7, 2005 (SB 1087), requires that public agencies that provide water or sewer services must adopt policies and procedures that make special provision for service to proposed developments that include affordable- and low-income housing units. SB 1087 specifically requires that, barring certain findings, water service for such proposed development cannot be denied, decreased or specially conditioned.

SB 1087 amended Government Code Section 65589.7 and added Water Code Section 10631. Government Code Section 65589.7 provides that public agencies that provide water or sewer services shall adopt, by July 1, 2006 and, at least every five years thereafter, written policies and procedures with specific objective standards for providing priority

service to proposed development that include housing units affordable to lower income households.

Water Code Section 10631.17 provides that water use projections of Urban Water Management Plans shall include projected water use for single-family and multi-family residential housing for lower income households.

With the assistance of the General Counsel, staff has drafted Board Policy No. 49 entitled Service to Affordable and Low Income Housing to reflect necessary changes to the District's policies and procedures to bring it into compliance with SB 1087.

FISCAL IMPACT:



None at this time.

LEGAL IMPACT:

Adoption of Policy 49 will move the District toward compliance with the provisions and requirements of SB 1087.

Mark Walton
General Manager



Attachments:

- Attachment A Committee Action
- Attachment B Resolution No. 4094
- Attachment C Proposed Policy No. 49 - Service to Affordable and Low Income Households
- Attachment D Senate Bill 1087



ATTACHMENT A

SUBJECT/PROJECT:	Adopt Board Policy 49 - Service to Affordable and Low Income Households
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COMMITTEE ACTION:

The Engineering, Operations and Water Resources Committee reviewed this item at a meeting held on January 23, 2007.

- It was discussed that staff is proposing implementation of Policy 49, Service to Affordable and Low Income Households, to bring the District into compliance with Senate Bill 1087.
- The Policy provides special provisions for service to proposed affordable/low income developments and bars the denial of water service for such proposed developments.
- It was noted that the District would probably never have the need to exercise this policy, but it must be in place per California State Law.
- Staff recommends adoption of Resolution No. 4094 implementing Policy 49 in compliance with California State Law.

Upon completion of the discussion, the Committee supported staff's recommendation and forwarding to the Board of Directors on the consent calendar.

RESOLUTION NO. 4094

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE
OTAY WATER DISTRICT ADOPTING POLICIES AND
PROCEDURES FOR PROVIDING PRIORITY SERVICE TO
AFFORDABLE HOUSING PROJECTS
(GOVERNMENT CODE § 65589.7; WATER CODE § 10631.17)**

WHEREAS, the Otay Water District (“District”) is committed to the provision of water and, in some areas within its jurisdiction, sewer services in compliance with applicable federal and state laws; and

WHEREAS, Senate Bill 1087, which was approved by the California legislature on October 7, 2005, amended Government Code Section 65589.7 and Water Code Section 10631.17 and requires the District to adopt policies and procedures (i) barring the denial or the conditioning of approval of an application for water service, or reducing the amount of service applied for, by a proposed development that includes affordable or low-income housing units except in limited circumstances, and (ii) granting priority for the provision of services to proposed developments that include affordable or low-income housing units; and

WHEREAS, the District has previously adopted certain policies incorporating Section 53.12 into the Code of Ordinance of the District providing reduced water charges for low-income customers; and

WHEREAS, the Districts existing policies and procedures must be amended to comply with the new Government Code and Water Code provisions; and

WHEREAS, Policy No. 49 - Service to Affordable and Low Income Households contains policies and procedures that, added to other Sections of the Code of Ordinance and other Policies of the District, will expand the current policies and procedures concerning service to affordable and low-income households to bring the District into compliance with the provisions and requirements of SB 1087.

NOW, THEREFORE, BE IT RESOLVED by the BOARD OF DIRECTORS of the OTAY WATER DISTRICT as follows:

Section 1. The District’s new Policy No. 49 - Service to Affordable and Low Income Households, a copy of which is attached hereto, is hereby approved and adopted.

Section 2. District staff shall take any steps necessary to give full force and effect to the provisions of Policy No. 49 including adopting any required procedures and proposing the amendment of any conflicting provisions of the Code of Ordinance or other policies or procedures of the District.

Section 3. Policy No. 49 shall become effective immediately.

APPROVED AND ADOPTED this 7th day of February 2007 by the Board of Directors of the Otay Water District.

President

ATTEST:

District Secretary

I HEREBY CERTIFY that the foregoing Resolution No.49 was duly adopted by the BOARD OF DIRECTORS of the OTAY WATER DISTRICT at a regular meeting thereof held on the 7th day of February, 2007 by the following vote:

Ayes:

Noes:

Abstain:

Absent:

District Secretary

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
SERVICE TO AFFORDABLE AND LOW INCOME HOUSEHOLDS	49	2/7/07	

PURPOSE

The Board of Directors of the Otay Water District (District) is aware of the lack of affordable and low income housing within the District's service area. In support of the need to address the imbalance in housing stock through economic incentives, and in accordance with the laws of the State of California, the Board has adopted this policy.

BACKGROUND

California Senate Bill 1087, approved on October 7, 2005 (SB 1087), requires that public agencies that provide water or sewer services must adopt policies and procedures that make special provision for service to proposed affordable- and low-income housing projects. SB 1087 specifically requires that, barring certain findings, water service for a proposed development cannot be denied, reduced or specially conditioned if the proposed development has an affordable housing component for lower income households. This policy represents the District's effort to comply with the requirements and provisions of Senate Bill 1087.

POLICY

It is the policy of the District not to deny or condition the provision of water or sewer service, nor to reduce the amount of service applied for on the behalf of any proposed development that includes housing units affordable to low- and very low-income households, unless it makes specific findings that the denial, condition, or reduction is necessary due to the existence of one or more of the following, as applicable:

- a. The District does not have "sufficient water supply," as defined in paragraph (2) of subdivision (a) of Section 66473.7 of the California Government Code, or is operating under a water shortage emergency as defined in Section 350 of the California Water Code or Section 39 of the Code of Ordinance; or
- b. The District does not have sufficient water or sewer treatment or distribution capacity to serve the needs of the proposed development, as demonstrated by a written engineering analysis and report; or
- c. The District is subject to a compliance order issued by the State Department of Health Services, or other state or regional entity, that prohibits new water or sewer connections; or
- d. The applicant has failed to agree to, or comply with, the District's terms and conditions relating to the provision of service generally applicable to development projects seeking service from the District, including, but not limited to, the requirements of local, state or federal laws, regulations and ordinances, payment of necessary fees or charges, and construction of on-site or off-site

improvements as needed to serve the proposed development to standards or general application as determined by the District.

The District shall review its low income/affordable housing policy at least once every five years concurrently with its review of its Urban Water Management Plan to ensure that availability determinations are made in compliance with the plan as adopted pursuant to Part 2.6 (commencing with Section 10610) of Division 6 of the California Water Code.

Because fees are based on the cost of services rendered, it is not the policy of the District to grant fee reductions. If the District determines that a project is not in compliance with the applicable requirements imposed by the responsible local government concerning affordability, the District may, at its discretion, delete that project from the list of proposed projects entitled to priority under this policy.

The District believes that the existing plans, documents, and information it relies upon to provide water and/or sewer service constitute a reasonable basis for making service determinations under this policy. This policy does not in any way impair the District's ability to deny, reduce or condition the supply of any water or sewer services, at any time, if the applicant's, owners or responsible parties fail, or refuse, to comply with the District's policies, requirements or procedures regarding the provision of services, including but not limited to the payment of applicable fees and charges.

PROCEDURES

Staff shall adopt any procedures necessary to ensure compliance with the requirements of SB 1087 and this Policy.

- "Housing", as used in this policy, includes rental housing, condominiums, cooperative housing, ownership housing, housing for families, housing for seniors, housing for physically and/or mentally disabled people, emergency shelters, and shared housing.
- "Affordable to lower income households" has the meaning defined in Section 65589.7 of the Government Code of the State of California

Senate Bill No. 1087

CHAPTER 727

An act to amend Section 65589.7 of the Government Code, and to add Section 10631.1 to the Water Code, relating to housing.

[Approved by Governor October 7, 2005. Filed with
Secretary of State October 7, 2005.]

LEGISLATIVE COUNSEL'S DIGEST

SB 1087, Florez. Housing elements: services.

(1) The Planning and Zoning Law requires each city, county, or city and county to prepare and adopt a general plan for its jurisdiction that contains certain mandatory elements, including a housing element. One part of the housing element is an assessment of housing needs and an inventory of resources and constraints relevant to meeting those needs. That law also requires that the housing element adopted by the legislative body of the city, county, or city and county and any amendments made to that element be delivered to all public agencies or private entities that provide water services at retail or sewer services within the territory of the legislative body.

The Planning and Zoning Law also requires each public agency or private entity providing these services to grant a priority for the provision of available and future resources or services to proposed housing developments that help meet the legislative body's share of the regional housing need for lower income households as identified in the housing element and any amendments to the housing element.

This bill would require that the adopted housing element and any amendments be delivered immediately to all public agencies or private entities that provide water or sewer services, as specified, would apply these provisions to proposed developments that include housing units affordable to lower income households, and would require, on or before July 1, 2006, that these public agencies or private entities adopt written policies and procedures, and at least once every 5 years thereafter, with specific objective standards for provision of these services in conformance with these provisions. The bill would also require the Public Utilities Commission to adopt written policies and procedures for use by private water and sewer companies regulated by the commission in a manner consistent with these provisions. By increasing the duties of local public officials, the bill would impose a state-mandated local program.

This bill would also provide that a provider of water or sewer services may not deny or condition the approval of an application for services, or reduce the amount of the services applied for, if the proposed development includes housing affordable to lower income households, except upon making specified findings.

The bill would make these provisions applicable to charter cities.

(2) The Urban Water Management Planning Act requires urban water suppliers to prepare and adopt urban water management plans for submission to the Department of Water Resources, which identify and quantify the existing and planned sources of water available to the water supplier's service area based on specified factors.

This bill would also require that the water use projections required by these provisions include the projected water use for single-family and multifamily residential housing for lower income households as identified in the housing element of any city, county, or city and county in the service area of the supplier.

(3) The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that with regard to certain mandates no reimbursement is required by this act for a specified reason.

With regard to any other mandates, this bill would provide that, if the Commission on State Mandates determines that the bill contains costs so mandated by the state, reimbursement for those costs shall be made pursuant to the statutory provisions noted above.

The people of the State of California do enact as follows:

SECTION 1. Section 65589.7 of the Government Code is amended to read:

65589.7. (a) The housing element adopted by the legislative body and any amendments made to that element shall be immediately delivered to all public agencies or private entities that provide water or sewer services for municipal and industrial uses, including residential, within the territory of the legislative body. Each public agency or private entity providing water or sewer services shall grant a priority for the provision of these services to proposed developments that include housing units affordable to lower income households.

(b) A public agency or private entity providing water or sewer services shall adopt written policies and procedures, not later than July 1, 2006, and at least once every five years thereafter, with specific objective standards for provision of services in conformance with this section. For private water and sewer companies regulated by the Public Utilities Commission, the commission shall adopt written policies and procedures for use by those companies in a manner consistent with this section. The policies and procedures shall take into account all of the following:

(1) Regulations and restrictions adopted pursuant to Chapter 3 (commencing with Section 350) of Division 1 of the Water Code, relating to water shortage emergencies.

(2) The availability of water supplies as determined by the public agency or private entity pursuant to an urban water management plan

adopted pursuant to Part 2.6 (commencing with Section 10610) of Division 6 of the Water Code.

(3) Plans, documents, and information relied upon by the public agency or private entity that is not an "urban water supplier," as defined in Section 10617 of the Water Code, or that provides sewer service, that provide a reasonable basis for making service determinations.

(c) A public agency or private entity that provides water or sewer services shall not deny or condition the approval of an application for services to, or reduce the amount of services applied for by, a proposed development that includes housing units affordable to lower income households unless the public agency or private entity makes specific written findings that the denial, condition, or reduction is necessary due to the existence of one or more of the following:

(1) The public agency or private entity providing water service does not have "sufficient water supply," as defined in paragraph (2) of subdivision (a) of Section 66473.7, or is operating under a water shortage emergency as defined in Section 350 of the Water Code, or does not have sufficient water treatment or distribution capacity, to serve the needs of the proposed development, as demonstrated by a written engineering analysis and report.

(2) The public agency or private entity providing water service is subject to a compliance order issued by the State Department of Health Services that prohibits new water connections.

(3) The public agency or private entity providing sewer service does not have sufficient treatment or collection capacity, as demonstrated by a written engineering analysis and report on the condition of the treatment or collection works, to serve the needs of the proposed development.

(4) The public agency or private entity providing sewer service is under an order issued by a regional water quality control board that prohibits new sewer connections.

(5) The applicant has failed to agree to reasonable terms and conditions relating to the provision of service generally applicable to development projects seeking service from the public agency or private entity, including, but not limited to, the requirements of local, state, or federal laws and regulations or payment of a fee or charge imposed pursuant to Section 66013.

(d) The following definitions apply for purposes of this section:

(1) "Proposed developments that include housing units affordable to lower income households" means that dwelling units shall be sold or rented to lower income households, as defined in Section 50079.5 of the Health and Safety Code, at an affordable housing cost, as defined in Section 50052.5 of the Health and Safety Code, or an affordable rent, as defined in Section 50053 of the Health and Safety Code.

(2) "Water or sewer services" means supplying service through a pipe or other constructed conveyance for a residential purpose, and does not include the sale of water for human consumption by a water supplier to another water supplier for resale. As used in this section, "water service"

provided by a public agency or private entity applies only to water supplied from public water systems subject to Chapter 4 (commencing with Section 116275) of Part 12 of Division 104 of the Health and Safety Code.

(e) This section is intended to neither enlarge nor diminish the existing authority of a city, county, or city and county in adopting a housing element. Failure to deliver a housing element adopted by the legislative body or amendments made to that element, to a public agency or private entity providing water or sewer services shall neither invalidate any action or approval of a development project nor exempt a public agency or private entity from the obligations under this section. The special districts which provide water or sewer services related to development, as defined in subdivision (e) of Section 56426, are included within this section.

(f) The Legislature finds and declares that this section shall be applicable to all cities and counties, including charter cities, because the Legislature finds that the lack of affordable housing is a matter of vital statewide importance.

SEC. 2. Section 10631.1 is added to the Water Code, to read:

10631.1. (a) The water use projections required by Section 10631 shall include projected water use for single-family and multifamily residential housing needed for lower income households, as defined in Section 50079.5 of the Health and Safety Code, as identified in the housing element of any city, county, or city and county in the service area of the supplier.

(b) It is the intent of the Legislature that the identification of projected water use for single-family and multifamily residential housing for lower income households will assist a supplier in complying with the requirement under Section 65589.7 of the Government Code to grant a priority for the provision of service to housing units affordable to lower income households.

SEC. 3. The Legislature finds and declares that Sections 65104 and 66014 of the Government Code provide local agencies with authority to levy fees sufficient to pay for the program or level of service mandated by this act.

SEC. 4. No reimbursement is required by this act pursuant to Section 6 of Article XIII B of the California Constitution because a local agency or school district has the authority to levy service charges, fees, or assessments sufficient to pay for the program or level of service mandated by this act, within the meaning of Section 17556 of the Government Code.

However, if the Commission on State Mandates determines that this act contains other costs mandated by the state, reimbursement to local agencies and school districts for those costs shall be made pursuant to Part 7 (commencing with Section 17500) of Division 4 of Title 2 of the Government Code.



AGENDA ITEM 5g

STAFF REPORT

TYPE MEETING:	Regular Board Meeting	MEETING DATE:	February 7, 2007
SUBMITTED BY:	Yuri A. Calderon	W.O./G.F. NO:	DIV. NO.
APPROVED BY:	Mark Watton		
SUBJECT:	<i>Engagement Letter for the Law Firm of Wilson Petty Kosmo & Turner for legal representation in the Harron v. Otay Water District Matter.</i>		

GENERAL COUNSEL'S RECOMMENDATION:

Ratify and approve the engagement letter for the law firm of Wilson Petty Kosmo & Turner for legal services and representation in the Harron v. Otay Water District matter.

BACKGROUND AND ANALYSIS:

The law firm of Foley & Lardner was previously retained by Otay Water District to provide legal representation to a director of the Board of Directors in defense of claims asserted by the former General Counsel, Tom Harron. Foley & Lardner provided legal representation to the District in connection with the Harron matter since 2001. Jim Godes, the partner in charge of such representation, left Foley & Lardner last year. At the time Mr. Godes departed, the director requested that the matter be transferred from Foley & Lardner to Mr. Godes new firm. Unfortunately, Mr. Godes new firm was not able to waive conflicts and Mr. Godes was unsure what his next step would be.

Following Jim Godes departure, Foley & Lardner informed the district that the agreed upon blended rate of \$295.00 per hour, which used to apply to services rendered by any attorney at the firm, would no longer be effective and that the District would have to pay different rates for services provided by associates, partners and senior partners. The District and the director decided that it would be in the best interest of the District to transfer the representation of the director to another firm. The Board of Directors assigned the General Counsel to determine if a transfer could be accomplished without causing delays in the matter. The director suggested that negotiations be initiated with the law firm of Wilson Petty Kosmo & Turner.

The law firm of Wilson Petty Kosmo & Turner was previously retained by the Otay Water District to provide legal representation to a former general manger of the District in connection with this matter. The former general manager has since been dismissed as a defendant in the case. Claudette Wilson, the partner in charge of such representation, agreed to undertake the representation of the director at a blended rate of \$280.00 for services rendered by attorneys at her firm. Since Ms. Wilson has handled several legal matters for the District and is familiar with this particular litigation, the General Counsel believes that a transfer could be accomplished without delay or negative impact to the legal services received by the director.

At a closed session held during the regularly scheduled meeting of the Board in December of 2006, the Board, with the consent of the director, directed the General Counsel to enter into an engagement agreement with Wilson Petty Kosmo & Turner to provide legal representation to said director. As a

result, both the director and the General Counsel have signed engagement agreements with Wilson Petty Kosmo & Turner.

The engagement agreement between the District and Wilson Petty Kosmo & Turner is being presented to this Board for ratification. Said agreement provides that Wilson Petty Kosmo & Turner will represent the director and its interests in the referenced litigation and that the District will be responsible for fees and costs incurred in connection with such representation. The fees and costs include fees for services rendered by attorneys at the firm at a blended rate of \$280.00 per hour, fees for paralegal services at a rate of \$110.00 per hour, delivery fees, court filing fees, mileage, fax fees of \$1.00 per page, copying costs of .15 per page, and other costs and expenses usually reimbursed by clients in connection with similar legal services. The agreement provides that the District shall have 45-days to process and pay each monthly invoice.

FISCAL IMPACT:



There is a decrease of \$15.00 per hour for legal services provided by attorneys in connection with this matter. While there is an expected decrease in the cost per hour, it is not expected that the overall costs associated with the litigation will be significantly impacted.

LEGAL IMPACT:

None at this time.



General Manager

1. Engagement Letter Between Wilson Petty Kosmo & Turner and District
2. Engagement Letter Between Wilson Petty Kosmo & Turner and Director

WILSON PETTY KOSMO & TURNER LLP
ATTORNEYS AT LAW

550 WEST "C" STREET, SUITE 1050
SAN DIEGO, CALIFORNIA 92101-3532

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mkalt@wpkt.com

FACSIMILE
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January 3, 2007

Otay Water District
c/o Yuri Calderon, Esq.
625 Broadway, Ste. 900
San Diego, CA 92101

Re: *Thomas J. Harron v. Otay Water District, et al.*
Representation Agreement

Dear Yuri:

This will confirm that the Otay Water District has retained us to represent individual defendant Jaime Bonilla in connection with the *Thomas J. Harron v. Otay Water District* case. (Throughout this letter, the Otay Water District will be referred to as "you.") This letter will set forth our understanding and agreement pertaining to the terms upon which you have engaged Wilson, Petty, Kosmo & Turner LLP (the "Firm") to represent Jaime Bonilla.

You have asked the Firm to defend Jaime Bonilla against Thomas Harron's claims of defamation, which are asserted against Mr. Bonilla individually, as part of Mr. Harron's other claims against the District in this matter. However, from time to time, the scope of legal services provided by the Firm may change based on written or oral requests from you to include other matters. The terms and conditions of the Firm's representation of Jaime Bonilla, as set forth in this letter, will apply to any other future services which you instruct the Firm to perform, unless some other written agreement is reached between you and the Firm at the time those instructions are received. However, unless specifically requested to perform other services on your behalf, the scope of our representation of you will be limited as reflected above.

We have not been retained to provide you or Mr. Bonilla with any tax advice concerning this matter, including without limitation the deduction of costs associated with litigation and the taxability of any recovery on your behalf. In some instances, the tax treatment of any recovery or of the costs and expenses of litigation may be affected by actions taken early in the litigation process. Therefore, you should consult with your tax advisors as soon as possible regarding this matter. Please feel free to have your tax advisors contact me if they need more information regarding any matter we are handling on your behalf.

WILSON PETTY KOSMO & TURNER LLP

Otay Water District
c/o Yuri Calderon, Esq.
January 3, 2007
Page 2

Claudette Wilson will be the Firm attorney assigned primary responsibility to assure your satisfaction with our professional relationship. When appropriate, however, the Firm may assign other Firm attorneys, including her partner, Michael S. Kalt, who have sufficient expertise and time to handle your matter competently and efficiently. Additionally, we may use paralegals and investigators to perform certain services on your behalf in order to minimize the impact of the hourly rates of the Firm attorneys. It is generally necessary for others to render substantial assistance in order to assure that we can be responsive to your needs and handle your matter without delay in the event Claudette Wilson is unavailable for periods of time for any reason.

Fees for the legal services rendered on your matter will be at the Firm's hourly billing rates of \$280 for attorneys and \$110 for paralegals. Those rates may be changed by the Firm in the future, in which case, the new rates will apply to all work performed thereafter. However, we do not anticipate an increase in rates before January 2008.

In performing legal services for you, the Firm may incur costs and advance sums on your behalf for items such as messenger and delivery fees, court filing fees, process server's fees, mileage reimbursements (not to exceed IRS standards), jury fees, deposition expenses, expert and consultant fees, travel expenses, staff overtime, computerized document preparation, computerized legal research, investigation costs, computerized litigation support, telefax charges at \$1.00 per page transmitted or received, copying costs at \$.15 per page if the Firm makes the copies or at our cost if an outside copying service makes the copies, and other charges related to your matter. Depending on the size of those charges, we may request that they be advanced by you. However, to the extent that the Firm advances those expenses on your behalf, you agree to reimburse the Firm for those expenses on a monthly basis.

The Firm will send you monthly statements, indicating the current status of your account as to both fees and disbursements. These statements will be payable in full upon receipt.

If, upon your receipt of the statement, you have any questions with regard to any charge set forth in it, or any item of information contained in it, please promptly telephone or write me so that we may discuss these matters when they are fresh in both our minds. I want to avoid any misunderstanding between us concerning fees or charges. The Firm expects you to pay your billing statements on a current basis. Therefore, it is imperative that we resolve any misunderstandings, or errors, relating to your billing statement immediately. If you do not raise any questions or objections to our statements within forty-five days of receipt, you agree that we may rely upon that fact as your acceptance of the statement as accurate.

At the commencement of any attorney-client relationship, it is difficult to predict, with any reasonable degree of accuracy, the extent of the legal services which ultimately will be performed or the fees and expenses which will be incurred. Much depends upon the approach to the matter which is taken by the opposition, the complexity of issues which arise,

WILSON PETTY KOSMO & TURNER LLP

Otay Water District
c/o Yuri Calderon, Esq.
January 3, 2007
Page 3

and other matters partially or completely beyond our control. Therefore, any oral or written estimate of fees for your engagement of the Firm is only an estimate, based on only preliminary information, and the actual fees and costs of the engagement may vary materially from that estimate. While we will make every effort to render reasonable estimates of fees and costs which may be incurred, we cannot, and do not, guarantee that we will not exceed any fee estimate.

Although we will perform our professional services on your behalf to the best of our ability, we cannot make, and have not made, any guarantees regarding the outcome of the matter for which you have engaged us. Our expressions about the outcome of the matter are our best professional estimates only and are limited by our knowledge at the time they are expressed. We will be compensated for the time and efforts we devote on your behalf and not for any particular result.

You have the right to terminate the Firm's services at any time. Similarly, the Firm may withdraw from its representation of you, consistent with the Rules of Professional Conduct, should you fail to promptly pay the amount indicated in the Firm's billing statements, should you fail to disclose any material facts or act contrary to the Firm's advice, or if anything else occurs that, in the Firm's judgment, impairs its ability to continue an effective attorney-client relationship. In the event of this Firm's withdrawal from representation of you or Mr. Bonilla, or your or Mr. Bonilla's termination of the Firm's services, you will be responsible for the fees and costs to the date of withdrawal or termination, payable immediately upon notification of withdrawal or termination.

In the event any dispute arises between us regarding legal fees or costs, the quality of our representation of you, or any other matter arising from this contract or the relationship between us of attorney and client, and to the extent permitted by law and/or authorized by applicable statute, ordinance, or regulation, your signature below acknowledges your agreement to submit such dispute to binding arbitration pursuant to the rules and regulations of the San Diego County Bar Association. **By so agreeing you understand you are waiving the right to have such dispute tried to a jury or to a judge.**

If your matter proceeds towards trial, the Firm may require a trial retainer ("Trial Retainer") to cover anticipated fees, costs, and expenses for trial preparation, trial, and post-trial matters in connection with a trial, arbitration, or other hearing on the merits based on the Firm's estimates of the amounts required. The Trial Retainer, if requested by the Firm, must be delivered to the Firm 120 days in advance of any scheduled date for trial, arbitration, or hearing on the merits based upon the notice of trial, notice of arbitration, or notice of hearing, or the Firm's best estimate of that date. You agree that the Firm may use the Trial Retainer pending the completion of the Firm's representation in the matter. Of course, the balance, if any, of the retainer remaining after the Firm's final closing statement will be refunded to you promptly.

WILSON PETTY KOSMO & TURNER LLP

Otay Water District
c/o Yuri Calderon, Esq.
January 3, 2007
Page 4

We will send to you copies of all pertinent correspondence, documents, and other materials prepared or received by the Firm in the course of our relationship. We hope this will keep you informed of our progress on your matter.

I encourage you to contact me whenever you have any questions or comments regarding our services, fees, or the status of your matter, or whenever any new facts or circumstances come to your attention.

This Agreement will take effect when you have signed it, but its effective date will be retroactive to the date the Firm first provided you with services. The date on this letter is for reference purposes only. Even if this Agreement does not take effect, you will be obligated to pay us the reasonable value of the services we may have performed for you.

To confirm our agreement under the terms and conditions set forth in this letter, please sign the enclosed copy where indicated, and return it in the enclosed, postage pre-paid return envelope. We look forward to serving your interests and working with you.

Very truly yours,



Michael S. Kalt for
WILSON, PETTY, KOSMO
& TURNER LLP

MSK/yk

Enclosure

**THE FOREGOING FEE ENGAGEMENT LETTER HAS BEEN READ, AND
ITS TERMS ARE HEREBY AGREED TO AND ACCEPTED:**

Dated: 1-23-2007

OTAY WATER DISTRICT

By: 
Yuri A. Calderon
General Counsel for the
Otay Water District

WILSON PETTY KOSMO & TURNER LLP

ATTORNEYS AT LAW

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January 3, 2007

Mr. Jaime Bonilla
Otay Water District
c/o Yuri Calderon, Esq.
625 Broadway, Ste. 900
San Diego, CA 92101

Re: *Thomas J. Harron v. Otay Water District, et al.*
Representation Agreement

Dear Jaime:

As you know, you have been named a defendant in the above-referenced case. I am writing this letter to you to confirm the conditions upon which Otay Water District ("the District") is furnishing you with a defense through our offices. One purpose of this letter is to review some of the contingencies which may occur to avoid possible misunderstandings that you otherwise might have regarding our representation of you in this matter, or any obligation of the District to you in this matter, as well as identifying generally the terms of our representation of you.

The District has agreed to pay the attorney's fees incurred on your behalf in this litigation. Of course, the District is in no way directing the litigation in this case. We are serving as your counsel and will make decisions and recommendations based solely on their effect on you. As discussed more fully below, however, we reserve the right to withdraw as your counsel if the District fails to pay our fees and if you are unwilling to take over payment.

Wilson Petty Kosmo & Turner LLP (the "Firm") will provide you with legal services with regard to the complaint brought against you by Thomas J. Harron. Unless specifically requested to perform other services on your behalf, the scope of our representation of you will be limited to representation in this litigation. If you specifically request additional services, a written agreement regarding payment for those services will be negotiated at that time.

We have not been retained to provide you with any tax advice concerning this matter, including without limitation the deduction of costs associated with litigation or the taxability of any payments made on your behalf. Please feel free to have your tax advisors contact me if they need more information regarding any matter we are handling on your behalf.

WILSON PETTY KOSMO & TURNER LLP

Jaime Bonilla
January 3, 2007
Page 2

Although we will perform our professional services on your behalf to the best of our ability, we cannot make, and have not made, any guarantees regarding the outcome of the matter for which you have engaged us. Our expressions about the outcome of the matter are our best professional estimates only and are limited by our knowledge at the time they are expressed. We will be compensated for the time and efforts we devote on your behalf and not for any particular result.

You have the right to terminate the Firm's services at any time. Similarly, the Firm may withdraw from its representation of you, consistent with the Rules of Professional Conduct, should the District fail to promptly pay the amount indicated in the Firm's billing statements and should you refuse to take over payment of the fees, should you fail to disclose any material facts or act contrary to the Firm's advice, or if anything else occurs that, in the Firm's judgment, impairs its ability to continue an effective attorney-client relationship.

You should understand that the Rules of Professional Conduct prohibit our accepting compensation for representing a client from one other than the client unless (1) there is no interference with the Firm's independent professional judgment, or with the client-lawyer relationship; and (2) the Firm obtains your informed written consent to the payment of fees by someone else, in this case. The risk which the Professional Rules of Conduct attempt to minimize is the risk that the attorney receiving payment from someone other than the client will be influenced to act according to the interest of the person or entity paying the fees, and possibly to the detriment of the client who is not paying the fees. While we intend to and will represent your interests fully, your signature at the end of this letter will constitute your consent to this arrangement.

You must also understand that you are not obligated to have us represent you in this matter. If at any future time you decide for any reason to engage separate counsel to represent you, we shall turn over this defense to that counsel. We certainly cannot represent you against your will or over your objections. If, therefore, you become dissatisfied at any time with the adequacy of our representation or otherwise believe that your own personal interest necessitates engaging separate counsel, you should plan to do so. I cannot represent to you, however, that the District will be willing to pay that additional defense cost and it might well be that such separate representation will have to be at your own expense.

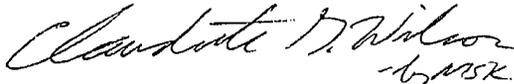
I encourage you to contact me whenever you have any questions or comments regarding our services or the status of your matter, or whenever any new facts or circumstances come to your attention.

WILSON PETTY KOSMO & TURNER LLP

Jaime Bonilla
January 3, 2007
Page 3

It is important that you understand and agree to this arrangement as soon as possible. If the foregoing is entirely satisfactory to you in every respect, please acknowledge this by signing and returning the enclosed copy of this letter.

Very truly yours,

Handwritten signature of Claudette G. Wilson in cursive, with initials "CGW" and "MSK" written below it.

Claudette G. Wilson

CGW/MSK/yk

Enclosure

cc: Otay Water District

I AGREE TO THE FOREGOING CONDITIONS AND UNDERSTANDINGS.

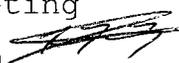
Dated: 1-3-07

By: 
JAIME BONILLA



AGENDA ITEM 6

STAFF REPORT

TYPE MEETING:	Regular Board Meeting	MEETING DATE:	February 7, 2007
SUBMITTED BY:	Joseph R. Beachem,  Chief Financial Officer	W.O./G.F. NO:	DIV. NO. All
APPROVED BY: (Chief)	 FOR G.M.		
APPROVED BY: (Asst. GM):	German Alvarez, Assistant General Manager		
SUBJECT:	Adopt Resolution No. 4095 Approving Sale of the Certificates of Participation (COPs)		

GENERAL MANAGER'S RECOMMENDATION:

That the Board adopt Resolution No.4095 authorizing the execution and delivery of Revenue Certificates of Participation (2007 Water System Project), Series 2007 (COPs) in principal amount not to exceed \$42,000,000 for the purpose of financing a portion of the District's 6-year Capital Improvement Program and authorizing the General Manager and Chief Financial Officer to execute documents in connection therewith.

COMMITTEE ACTION: _____

Please see Attachment A.

PURPOSE:

To present for the Board's consideration the adoption of Resolution No. 4095 authorizing the execution and delivery of Revenue Certificates of Participation (2007 Water System Project), Series 2007 (COPs) in principal amount not to exceed \$42,000,000 for the purpose of financing a portion of the District's 6-year Capital Improvement Program and authorizing the General Manager and Chief Financial Officer to execute documents in connection therewith.

ANALYSIS:

In December 2006, the Board was presented with a Financing Plan Update detailing the plans for the issuance of approximately \$42 million of COPs as part of the funding of the current 6-Year CIP Budget. In January 2007, the Board held a public hearing and implemented the current planned rate increase as part of this

comprehensive financing plan for the CIP. The COPs are expected to be issued in March 2007.

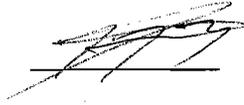
In preparation for the issuance of the COPs, the Board has been presented with forms of the following financing documents:

- Trust Agreement by and among the District, the Otay Service Corporation (the "Corporation") and Union Bank of California (the "Trustee");
- Installment Purchase Agreement by and between the District and the Corporation;
- Assignment Agreement by and between the Corporation and the Trustee;
- Continuing Disclosure Agreement;
- Preliminary Official Statement relating to the COPs; and
- Official Notice of Sale relating to the parameters for the sale of the COPs at competitive sale.

The resolution provides the designated District officials and staff with the authorization to execute and deliver the COPs, execute the various financing documents in connection with the COPs, circulate a Preliminary Official Statement and an Official Statement and award the sale of the COPs to the lowest responsible bidder. The resolution provides that the COPs may be issued in a maximum amount not-to-exceed \$42,000,000 at a true interest cost not-to-exceed 6%. Currently, the estimated true interest cost is 4.6%, but the final rates will not be determined until the COPs are actually offered for sale on February 21, 2007.

The Corporation is a party to the Installment Purchase Agreement, Trust Agreement and Assignment Agreement. A separate action has been scheduled for the Board of Directors of the Corporation for their approval of such documents.

FISCAL IMPACT:



The sale of the COPs will provide debt funding for a portion of the District's 6-Year CIP, while maintaining operating and capital reserve levels in accordance with the Board's Reserve Policy. The COPs will have a 30 year maturity. At the estimated

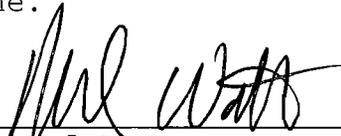
true interest cost of 4.6%, the annual debt service on the COPs is projected to be approximately \$2,600,000.

STRATEGIC GOAL:

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

LEGAL IMPACT: _____

None.



General Manager

Attachments:

- A) Committee Action Form
- B) Resolution 4095
- C) Trust Agreement
- D) Installment Purchase Agreement
- E) Assignment Agreement
- F) Continuing Disclosure Agreement
- G) Preliminary Official Statement
- H) Official Notice of Sale



ATTACHMENT A

SUBJECT/PROJECT:	Informational Item on the Progress on the Bond Sale Efforts
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COMMITTEE ACTION:

The Finance and Administration and Communications Committees reviewed this item at a meeting held on January 24, 2007. The following comments were made:

- Staff will be presenting at the February board meeting the board resolution for the board's approval to issue the debt along with the bond documents.
- Staff updated the committee on its meetings with the rating agencies Standard and Poor's (January 23rd) and Fitch (January 24th). Staff indicated that their presentation to the rating agencies on the District included an overview of the Strategic Plan, Integrated Water Resources Master Plan, Rate Model, Board Policies, Information Technology Systems, major projects, etc. The rating agencies will then utilize the information to determine the financial soundness of the District (rating).
- It was discussed that the rating agencies cost will be paid out of the bond issuance and the fee will be around \$20,000 to \$23,000.
- It was noted that it was important for board members to read the "Preliminary Official Statement." The board should focus on the description of the District, its service area, water supply, and the District's projects for accuracy.
- The final sale of the bonds is expected around the end of February 2007.

Upon completion of the discussion, the Committee supported staff's recommendation and forwarding this to the Board of Directors as an action item.

RESOLUTION NO. 4095

RESOLUTION OF THE BOARD OF DIRECTORS OF THE OTAY WATER DISTRICT APPROVING AN INSTALLMENT PURCHASE AGREEMENT, TRUST AGREEMENT, CONTINUING DISCLOSURE AGREEMENT, PRELIMINARY OFFICIAL STATEMENT AND NOTICE INVITING BIDS, RELATED TO THE EXECUTION AND DELIVERY OF OTAY WATER DISTRICT REVENUE CERTIFICATES OF PARTICIPATION; AND APPROVING AND AUTHORIZING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH

WHEREAS, the Otay Water District, a municipal water district duly formed and existing under and by virtue of the laws of the State of California (the "District"), owns and operates a water system (the "Water System") to provide for the production, acquisition, treatment and distribution of potable and reclaimed water; and

WHEREAS, the District proposes to finance the acquisition and construction of improvements, betterments, renovations, and expansions of certain facilities within its Water System (the "Project"); and

WHEREAS, the Otay Service Corporation (the "Corporation") is a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California formed for the purpose of assisting the District in financing capital improvements such as the Project; and

WHEREAS, the Corporation has agreed to cause funds for the financing of the Project to be provided for through the execution and delivery of Certificates of Participation to be designated as the Otay Water District Revenue Certificates of Participation (2007 Water System Project), Series 2007 (the "Certificates") as described below; and

WHEREAS, pursuant to an Installment Purchase Agreement, dated as of March 1, 2007 (the "Installment Purchase Agreement"), between the Corporation and the District, the District will be obligated to make installment payments (the "Installment Payments") to the Corporation as the purchase price of the Project; and

WHEREAS, in order to provide funds for the financing, the Corporation will assign its rights under the Installment Purchase Agreement, including its rights to receive the Installment Payments, to the Union Bank of California, N.A., a national banking association authorized to conduct a trust business, duly organized and existing under the laws of the United States of America, as trustee (the "Trustee"), for the benefit of the owners of the Certificates; and

WHEREAS, pursuant to a Trust Agreement, dated as of March 1, 2007 (the "Trust Agreement"), among the District, the Corporation and the Trustee, the Trustee will deliver the Certificates, representing proportionate interests of the owners thereof in the Installment

Payments; and

WHEREAS, the proceeds of the sale of the Certificates are to be applied to, among other things, the costs of the Project, as provided in the Trust Agreement; and

WHEREAS, for this proposed financing, there has been presented to the District the following documents for approval:

1. The Installment Purchase Agreement;
2. The Trust Agreement;
3. A Preliminary Official Statement for the Certificates (the "Preliminary Official Statement");
4. A Notice Inviting Bids; and
5. A Continuing Disclosure Agreement by and between the District and Union Bank of California, N.A., as Dissemination Agent (the "Continuing Disclosure Agreement").

WHEREAS, the Installment Purchase Agreement, Trust Agreement, Preliminary Official Statement, Notice Inviting Bids, Continuing Disclosure Agreement and other related documents and certificates are necessary to carry out the financing of the Project;

NOW, THEREFORE, BE IT RESOLVED, ORDERED AND DETERMINED BY THE BOARD OF DIRECTORS OF THE OTAY WATER DISTRICT, AS FOLLOWS:

Section 1. Each of the above recitals is true and correct and is adopted by the Board of Directors of the District.

Section 2. The forms of the Installment Purchase Agreement, the Trust Agreement, and the Continuing Disclosure Agreement (collectively, the "District Agreements"), each in the form presented at this meeting and on file with the Secretary of the District, and the performance by the District of its obligations thereunder are hereby approved. Each of the President or Treasurer of the Board of Directors, the General Manager or the Chief Financial Officer of the District, and their written designees (each, an "Authorized Officer" and collectively, the "Authorized Officers") is hereby authorized and directed, for and in the name and on behalf of the District, to execute and deliver the District Agreements in substantially said form, with such changes therein as the Authorized Officer executing such document may approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 3. Union Bank of California, N.A. is hereby appointed to act as trustee for the Certificates and the Certificates shall be authenticated and delivered by the Trustee to The Depository Trust Company in the manner set forth in the Trust Agreement.

Section 4. The form of the Preliminary Official Statement presented at this meeting is hereby approved, and the District's Financial Advisor is hereby authorized to distribute the Preliminary Official Statement to prospective purchasers of the Certificates in the form hereby approved, together with such additions thereto and changes therein as are determined necessary by the General Manager or the Chief Financial Officer or their designees to make such Preliminary Official Statement final as of its date for purposes of Rule 15c2-12 of the Securities and Exchange Commission, including but not limited to, such additions and changes as are necessary to make all information set forth therein accurate and not misleading. The General Manger and the Chief Financial Officer, each, individually, is hereby authorized to execute, approve and deliver the final Official Statement in the form of the Preliminary Official Statement with such changes as determined necessary by any Authorized Officer to make such Official Statement complete and accurate as of its date.

Section 5. The form of the Notice Inviting Bids is approved and the District's Financial Advisor is authorized to solicit bids for the sale of the Certificates by publishing once in a newspaper of general circulation in the State of California, not less than 10 days prior to receipt of bids, a short form of the Notice Inviting Bids and to mail to prospective purchasers of the Certificates the Notice Inviting Bids substantially in the form on file with the Secretary, together with such changes thereto as the Chief Financial Officer or another Authorized Officer approves. Each of the General Manager and the Chief Financial Officer and their respective designees is authorized, on behalf of the District, to accept the bid of the lowest responsible bidder for the Certificates provided that (i) the principal amount of the Certificates does not exceed \$42,000,000 and (ii) the true interest cost of the Certificates as calculated by the District's Financial Advisor does not exceed 6.0% per annum. The sale may be conducted by any means approved by the Chief Financial Officer or his designee.

Section 6. The Chief Financial Officer or his designee are hereby authorized to (i) solicit bids for a municipal bond insurance policy and debt service reserve fund policy, (ii) negotiate the terms of such policies, (iii) finalize the forms of such policies with a municipal bond insurer; (iv) cause to be incorporated into the District Agreements any changes deemed necessary or desirable in connection with such policies, and (v) pay the insurance premium for the policy or policies from proceeds of the sale of the Certificates if it is determined that the policy or policies will result in interest rate savings for the District.

Section 7. Each Authorized Officer is hereby authorized and directed, acting singly, to do any and all things and to execute and deliver any and all documents which he or she may deem necessary or desirable in order to consummate the transactions authorized hereby and to consummate the sale, execution and delivery of the Certificates and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution, the District Agreements and the Certificates; and all such actions heretofore taken by such officers are hereby ratified, confirmed and approved.

Section 8. This Resolution shall take effect immediately upon its passage.

PASSED, APPROVED AND ADOPTED this 7th day of February, 2007.

Gary Croucher, President of the
Board of Directors of the Otay Water District

Attest:

Susan Cruz, Secretary to the
Board of Directors of the Otay Water District

STATE OF CALIFORNIA)
) ss
COUNTY OF SAN DIEGO)

I, Susan Cruz, Secretary to the Board of Directors of the Otay Water District, do hereby certify that the foregoing Resolution No. 4095 was duly adopted by the Board of Directors of the Otay Water District at a regular meeting thereof held on the 7th day of February, 2007 by the following vote:

- Ayes: DIRECTORS:
- Noes: DIRECTORS:
- Abstain: DIRECTORS:
- Absent: DIRECTORS:

Susan Cruz, Secretary to the Board of
Directors of the Otay Water District

(SEAL)

TRUST AGREEMENT

by and among

**UNION BANK OF CALIFORNIA, N.A.,
as Trustee**

and

OTAY SERVICE CORPORATION

and

OTAY WATER DISTRICT

Dated as of _____, 2007

Relating to

**\$42,000,000*
OTAY WATER DISTRICT
REVENUE CERTIFICATES OF PARTICIPATION
(2007 WATER SYSTEM PROJECT), SERIES 2007**

* Preliminary

TRUST AGREEMENT

THIS TRUST AGREEMENT, dated as of _____, 2007 (the "Trust Agreement"), by and among the UNION BANK OF CALIFORNIA, N.A., a national banking association authorized to conduct a trust business duly organized and existing under the laws of the United States of America, as trustee (the "Trustee"), the OTAY SERVICE CORPORATION, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation"), and the OTAY WATER DISTRICT, a municipal water district duly formed and existing under the laws of the State of California (the "District");

WITNESSETH:

WHEREAS, the Corporation is authorized and empowered, among other things, to assist the District in connection with the financing of acquisitions for, and additions, betterments, extensions, replacements and improvements to, its Water System (capitalized terms used herein and not otherwise defined shall have the meanings assigned such terms pursuant to Section 1.01 hereof); and

WHEREAS, in order to provide for the acquisition and construction by the District of the additions, betterments, extensions, replacements and improvements to the Water System, all constituting the 2007 Project, the District and the Corporation have entered into the Installment Purchase Agreement; and

WHEREAS, pursuant to the Installment Purchase Agreement, the District is to make certain Installment Payments to the Corporation; and

WHEREAS, the District has determined that the consummation of the transactions contemplated by the Installment Purchase Agreement is necessary and proper for District purposes and is for the common benefit of the District as a whole; and

WHEREAS, the Installment Payments and all of the Corporation's rights and privileges under the Installment Purchase Agreement (other than rights to indemnification and expenses) have been assigned and transferred by the Corporation to the Trustee pursuant to the Assignment Agreement; and

WHEREAS, in consideration of such assignment and the execution and delivery of this Trust Agreement, the Trustee has agreed to execute and deliver the Certificates, with each Certificate evidencing a proportionate ownership interest in the Installment Payments; and

WHEREAS, the Corporation and the District have determined and hereby certify that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and delivery of this Trust Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the execution and delivery of this Trust Agreement have been in all respects duly authorized; and

NOW, THEREFORE, in consideration of the premises and the mutual agreements and covenants herein, and for other valuable consideration, the parties hereto do hereby covenant and agree, as follows:

ARTICLE I

DEFINITIONS; RULES OF CONSTRUCTION; CONTENTS OF CERTIFICATES AND OPINIONS; RECITALS

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this section shall for all purposes hereof and of any amendment hereof or supplement hereto and of any report or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein. All capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in the Installment Purchase Agreement:

Assignment Agreement. The term "Assignment Agreement" means that certain Assignment Agreement, by and between the Corporation and the Trustee, dated as of _____, 2007 as originally executed or as it may from time to time be amended or supplemented in accordance with its terms.

Bond Insurance Policy. The term "Bond Insurance Policy" means the municipal bond insurance policy issued by the Insurer that guarantees payment of principal of and interest with respect to the Certificates.

Certificate Payment Fund. The term "Certificate Payment Fund" means the fund by that name established in Section 5.02 hereof.

Certificates. The term "Certificates" means the certificates of participation executed and delivered by the Trustee pursuant to this Trust Agreement.

Closing Date. The term "Closing Date" means the date on which the Certificates, duly executed by the Trustee are delivered to _____ as the original purchaser thereof.

Code. The term "Code" means the Internal Revenue Code of 1986 and the regulations issued thereunder, as the same may be amended from time to time and any successor provisions of law. Reference to any particular section of the Code shall be deemed to be a reference to any successor to any such section.

Continuing Disclosure Agreement. The term "Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement, dated as of _____, 2007, by and between the District and Union Bank of California, N.A., as dissemination agent, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

Costs. The term "Costs" shall mean, with respect to the 2007 Project, the costs, expenses and liabilities paid or incurred or to be paid or incurred by the District in connection with the planning, engineering, designing, acquiring, constructing, installing, and financing of the 2007 Project or any portion thereof, and the obtaining of all governmental approvals, certificates, permits and licenses

with respect thereto, including, but not limited to, the cost of any demolitions or relocations necessary in connection therewith, any good faith or other similar payment or deposits, the cost of acquisition by or for the District of real and personal property or any interests therein, costs of physical construction and costs of the District incidental to such construction or acquisition, all costs relating to injury and damage claims, the costs of any indemnity or surety bonds and premiums on insurance, including obligations to a stock, mutual or reciprocal insurance company or exchange, preliminary investigation and development costs, engineering fees and expenses, contractors' fees and expenses, the costs of labor, materials, equipment and utility services and supplies, legal fees and expenses, administration and general overhead expenses and costs of keeping accounts and making reports required by this Trust Agreement prior to or in connection with the completion of construction, and all federal, state and local taxes and payments in lieu of taxes legally required to be paid in connection with the 2007 Project during the period of construction thereof and shall include reimbursements to the District for any of the above items theretofore paid by or on behalf of the District. It is intended that this definition of Cost be broadly construed to encompass all costs, expenses and liabilities of the District which are chargeable to the capital accounts of any portion the 2007 Project in accordance with generally accepted accounting principles.

Defeasance Obligations. The term "Defeasance Obligations" means:

1. Cash
2. U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series – "SLGs")
3. Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities
4. Resolution Funding Corp. ("REFCORP") Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book-entry form are acceptable.
5. Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If, however, the issue is only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA-rated pre-refunded municipals to satisfy this condition.

Delivery Cost Fund. The term "Delivery Cost Fund" means the fund by that name established in Section 3.04 hereof.

Delivery Costs. The term "Delivery Costs" means all items of expense directly or indirectly payable by or reimbursable to the District and related to the authorization, execution, sale and delivery of the Certificates, 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 Certificates and any other cost, charge or fee in connection with the original execution and delivery of the Certificates.

Delivery Date. The term “Delivery Date” means _____, 2007.

Depository or 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 Certificates.

Information Services. The term “Information Services” means Financial Information, Inc.’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302; Fitch “Called Bond Department,” 5250 Center Drive, Suite 150, Charlotte, NC 28217; S&P “Called Bond Record,” 55 Water Street, New York, New York 10041; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the District may designate in a Written Request of the District delivered to the Trustee.

Installment Payments. The term “Installment Payments” means the installment payments payable by the District pursuant to the Installment Purchase Agreement and in the amounts and at the times set forth in the Installment Purchase Agreement.

Installment Payment Date. The term “Installment Payment Date” means the date on which Installment Payments are scheduled to be paid by the District pursuant to the Installment Purchase Agreement.

Installment Purchase Agreement. The term “Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of _____, 2007, by and between the District and the Corporation, as originally executed or as it may from time to time be amended in accordance with its terms.

Insurer. The term “Insurer” means _____, a _____ insurance company, or any successor thereto.

Interest Fund. The term “Interest Fund” means the fund by that name established in Section 5.02 hereof.

Letter of Representations. The term “Letter of Representations” means the letter of representations of the District on file with the Depository setting forth the basis on which the Depository serves as depository for book-entry Certificates.

Moody’s. The term “Moody’s” means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the services of a municipal securities rating agency, then the term “Moody’s” shall be deemed to refer to any other nationally recognized municipal securities rating agency selected by the District.

Nominee. The term “Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to Section 2.11 hereof.

Outstanding. The term “Outstanding,” when used as of any particular time with reference to Certificates, means (subject to the provisions of Section 11.04) all Certificates except --

- (1) Certificates canceled by the Trustee or delivered to the Trustee for cancellation;
- (2) Certificates paid or deemed to have been paid within the meaning of Section 10.01; and
- (3) Certificates in lieu of or in substitution for which other Certificates shall have been executed and delivered by the Trustee pursuant to Section 2.10.

Owner. The term “Owner” or “Certificate Owner” or “Owner of Certificates” or any similar term, when used with respect to the Certificates, means any person who shall be the registered owner of any Outstanding Certificate.

Participating Underwriter. The term “Participating Underwriter” shall have the meaning ascribed thereto in the Continuing Disclosure Agreement.

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 Dates; Payment Date. The term “Payment Dates” means March 1 and September 1 in each year commencing September 1, 2007 and any date on which the unpaid Installment Payments are declared to be due and payable immediately and provided such declaration is not rescinded or annulled, all in accordance with Section 8.01 of the Installment Purchase Agreement.

Permitted Investments. The term “Permitted Investments” means for all purposes other than defeasing investments in a refunding escrow account:

(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 certificates of beneficial ownership

(ii) Farmers Home Administration (FmHA)

Certificates of beneficial ownership

(iii) Federal Financing Bank

- (iv) Federal Housing Administration Debentures (FHA)
- (v) General Services Administration
Participation certificates
- (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 Corporation 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 Corporation (FHLMC or “Freddie Mac”)
Participation certificates
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) obligation
- (v) Farm Credit System
Consolidated systemwide bonds and notes
- (vi) Student Loan Marketing Association (SLMA or “Sallie Mae”)
Senior debt obligations

(vii) 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

(viii) Farm Credit System Corp. - Consolidated system-wide bonds and notes

(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 AAm and by Moody's of Aaa, Aa1 or Aa2 (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 Bondholders 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 (including those of the Trustee and its affiliates).

(g) Investment Agreements, including guaranteed investment contracts, acceptable to the Insurer.

(h) Commercial paper rated, at the time of purchase, "Prime-1" by Moody's and "A-1+" or better by S&P.

(i) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P's in one of the two highest rating categories assigned by such agencies.

(j) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured or unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1+" or better by S&P.

(k) Repurchase agreements satisfying criteria acceptable to the Insurer that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date or dates.

(l) Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If, however, the issue is only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

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

(n) Other forms of investments (including repurchase agreements) approved in writing by the Insurer, and constituting the general obligation of a provider whose unsecured long term obligations are rated “A” or higher by S&P.

Prepayment Fund. The term “Prepayment Fund” means the fund by that name established in Section 5.02 hereof.

Prepayment Price. The term “Prepayment Price” means, with respect to any Certificate (or portion thereof), the principal amount with respect to such Certificate (or portion) plus the applicable premium, if any, payable upon prepayment thereof pursuant to the provisions of such Certificate and this Trust Agreement.

Principal Fund. The term “Principal Fund” means the fund by that name established in Section 5.02 hereof.

Rebate Fund. The term “Rebate Fund” means the fund by that name established in Section 5.06 hereof.

Record Date. The term “Record Date” means, with respect to any Payment Date for the Certificates, the fifteenth day of the calendar month prior to such Payment Date.

Reserve Fund. The term “Reserve Fund” means the fund by that name established in Section 5.03 hereof.

Reserve Policy. The term “Reserve Policy” means the municipal bond debt service reserve fund policy issued by Insurer guaranteeing certain payments into the Reserve Fund with respect to the Certificates as provided therein and subject to the limitations set forth therein.

S&P. The term “S&P” means Standard & Poor’s Ratings Service, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors or assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the services of a municipal securities rating agency, then “S&P” shall be deemed to refer to any other nationally recognized municipal securities rating agency selected by the District.

Securities Depositories. The term “Securities Depositories” means: The Depository Trust Company and/or such other securities depositories as the Corporation may designate in a Written Certificate of the Corporation delivered to the Trustee and/or such other securities depositories as the District may designate in a Written Request of the District delivered to the Trustee.

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

Statement of the Corporation or District. The term “Statement of the Corporation or District” means a statement signed by or on behalf of (i) the Corporation by its President, Vice President, Executive Director, Chief Financial Officer or Assistant Chief Financial Officer, or (ii) the District by the President of its Board of Directors, General Manager or Chief Financial Officer or by any two persons (whether or not officers of the District) who are specifically authorized by resolution of the District to sign or execute such a document on its behalf. If and to the extent required by the provisions of Section 1.03, each Statement of the Corporation or District shall include the statements provided for in Section 1.03.

Tax Certificate. “Tax Certificate” means the Tax Certificate dated the Closing Date, concerning certain matters pertaining to the use and investment of proceeds of the Certificates executed by and delivered to the District, including any and all exhibits attached thereto.

Trust Agreement. The term “Trust Agreement” means this Trust Agreement as originally executed or as it may from time to time be amended as provided for herein.

Trustee. The term “Trustee” means Union Bank of California, N.A., a national banking association, duly organized and existing under and by virtue of the laws of the United States of America, having a principal corporate trust office in Los Angeles, California, or its successor as Trustee hereunder.

2007 Project. The term “2007 Project” means the additions, betterments, extensions, replacements and improvements to the Water System described or provided for in Exhibit A to the Installment Purchase Agreement.

2007 Project Fund. The term “2007 Project Fund” means the fund by that name established pursuant to Section 3.05 hereof.

2007 Reserve Fund Requirement. The term “2007 Reserve Fund Requirement” means, as of any date of calculation, an amount equal to the lesser of (i) maximum Installment Payments due in connection with the Certificates during the then current or any future Fiscal Year or (ii) \$ _____.

Written Order of the Corporation or District, Written Request of the Corporation or District. The terms “Written Order of the District,” “Written Order of the Corporation,” “Written Request of the District” or “Written Request of the Corporation” mean, respectively, a written order, request or requisition signed by or on behalf of (i) the Corporation by its President, Vice President, Executive Director or Treasurer, or (ii) the District by the Chairman of its Board of Directors, General Manager or Chief Financial Officer or by any two persons who are specifically authorized by resolution of the District to sign or execute such a document on its behalf.

Section 1.02. Rules of Construction. Words of any gender shall be deemed and construed to include all genders, and words importing persons shall include corporations and associations, including public bodies, as well as natural persons. Unless the context otherwise indicates, words importing the singular number shall include the plural number and vice versa.

Section 1.03. Content of Statements and Opinions. Every statement or opinion with respect to compliance with a condition or covenant provided for in this Trust Agreement, including each Statement of the Corporation, shall include (a) a statement that the person or persons making or giving such statement or opinion have read such covenant or condition and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such statement or opinion are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such covenant or condition has been complied with; and (d) a statement as to whether, in the opinion of the signers, such condition or covenant has been complied with.

Any such statement or opinion made or given by an officer of the Corporation may be based, insofar as it relates to legal or accounting matters, upon a statement or opinion of or representations by counsel, accountants or consultants, unless such officer knows, or in the exercise of reasonable care should have known, that the statement or opinion or representations with respect to the matters upon which his statement or opinion may be based, as aforesaid, are erroneous. Any such statement or opinion made or given by counsel, accountants or consultants may be based, insofar as it relates to factual matters, upon information with respect to which is in the possession of the Corporation, or upon the statement or opinion of or representations by an officer or officers of the Corporation, unless such counsel, accountant or consultant knows, or in the exercise of reasonable care should have known, that the statement or opinion or representations with respect to the matters upon which his opinion may be based as aforesaid are erroneous.

Section 1.04. Recitals. The Recitals set forth above are incorporated and made part of this Trust Agreement by reference as if fully set forth herein.

ARTICLE II

CERTIFICATES; TERMS AND PROVISIONS

Section 2.01. Preparation of Certificates. The Trustee is hereby authorized to execute certificates of participation, to be denominated "Otay Water District Revenue Certificates of Participation (2007 Water System Project), Series 2007" in an aggregate principal amount of \$42,000,000* evidencing undivided interests in Installment Payments to be paid by the District under the Installment Purchase Agreement.

Section 2.02. Denominations; Medium and Place of Payment; Dating. The Certificates shall be delivered in the form of fully registered Certificates in the denomination of \$5,000 each or any integral multiple thereof; provided that no Certificate shall have principal represented thereby maturing in more than one year.

The principal and Prepayment Price with respect to all Certificates shall be payable in lawful money of the United States of America upon presentation and surrender thereof at the principal corporate trust office of the Trustee in Los Angeles, California. Interest with respect to Certificates shall be payable by check or draft of the Trustee mailed by first class mail on the Payment Dates of such Certificates to the respective Certificate Owners of record thereof as of the close of business on the Record Date at the addresses shown on the books required to be kept pursuant to Section 2.08 or, upon the written request received by the Trustee of an Owner of at least \$1,000,000 in aggregate principal amount of Certificates, by wire transfer of immediately available funds to an account in the United States designated by such Owner prior to the applicable Record Date, except in each case, that, if and to the extent that there shall be a default in the payment of the interest due on such Payment Date, such defaulted interest shall be paid to the Owners in whose names any such Certificates are registered at the close of business on a special record date as determined by the Trustee. A written notice for wire transfer shall remain in effect until otherwise specified by the Owner who requested wire transfer.

The Certificates shall be dated the Delivery Date. Interest with respect to Certificates shall be payable from the Payment Date next preceding their date of execution, unless such date shall be

* Preliminary

after a Record Date and on or before the succeeding Payment Date, in which case interest shall be payable from such Payment Date or unless such date shall be on or before the first Record Date, in which case interest shall be payable from Closing Date, provided, however, that if, as shown by the records of the Trustee, interest represented by the Certificates shall be in default, Certificates executed in exchange for Certificates surrendered for transfer or exchange shall represent interest from the last date to which interest has been paid in full or duly provided for with respect to the Certificates, or, if no interest has been paid or duly provided for with respect to the Certificates, from the Closing Date.

Section 2.03. Payment of Principal and Interest with Respect to Certificates.

(a) Certificates shall become payable on September 1 in the years and in the amounts and with an interest component as provided in subsection (b) below at the rates, as follows:

<i>Payment Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>
2008		
2009		
2010		
2011		
2012		
2013		
2014		
2015		
2016		
2017		
2018		
2019		
2020		
2021		
2022		
2023		
2024		
2025		
2026		
2027		

Principal or Prepayment Price due with respect to the Certificates at maturity or prepayment thereof, whichever is earlier, shall, to the extent of the aggregate principal amount stated upon the Certificates, represent the sum of those portions of the Installment Payments designated as principal coming due on the Installment Payment Dates immediately preceding the Payment Dates in each year.

(b) Interest with respect to the Certificates shall be payable on each Payment Date, continuing to and including the date of maturity or prior prepayment, whichever is earlier. Said interest shall represent the sum of those portions of the Installment Payments designated as interest coming due on the Installment Payment Dates, at the rates set forth in subsection (a) above. Interest

with respect to the Certificates shall be calculated on the basis of a 360 day year of twelve 30-day months.

Section 2.04. Form of Certificates. The Certificates and the form of assignment to appear thereon shall be in substantially the form set forth in Exhibit A hereto with necessary or appropriate variations, omissions and insertions as permitted or required by this Trust Agreement.

Section 2.05. Execution. The Certificates shall be executed by and in the name of the Trustee, as trustee under this Trust Agreement, by the manual signature of an authorized officer or signatory of the Trustee.

Section 2.06. Transfer of Certificates. Any Certificate may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.08, by the person in whose name it is registered, in person or by such person's duly authorized attorney, upon surrender of such Certificate for cancellation at the principal corporate trust office of the Trustee in Los Angeles, California, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee.

Whenever any Certificate or Certificates shall be surrendered for transfer, the Trustee shall execute and deliver a new Certificate or Certificates of the same maturity, for a like aggregate principal amount and of authorized denomination or denominations. The Trustee may charge a sum for each new Certificate executed and delivered upon any transfer. The Trustee may require the payment by any Certificate Owner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer. Following any transfer of Certificates the Trustee shall cancel and destroy the Certificates it has received.

Section 2.07. Exchange of Certificates. Certificates may be exchanged at the principal corporate trust office of the Trustee in Los Angeles, California, for a like aggregate principal amount of Certificates of other authorized denominations of the same maturity. The Trustee may charge a sum for each new Certificate executed and delivered upon any exchange except in the case of any exchange of temporary Certificates for definitive Certificates. The Trustee may require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of Certificates the Trustee shall cancel and destroy the Certificates it has received.

The Trustee shall not be required to register the exchange, or transfer pursuant to Section 2.06 hereof, of any Certificate (i) within 15 days preceding selection of Certificates for prepayment or (ii) selected for prepayment.

Section 2.08. Certificate Registration Books. The Trustee will keep or cause to be kept, at its principal corporate trust office in Los Angeles, California, sufficient books for the registration and transfer of the Certificates, which shall upon reasonable prior notice and at all reasonable times be open to inspection by the Corporation or the District; 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 said books, Certificates as hereinbefore provided.

The person in whose name any Certificate shall be registered shall be deemed the Owner thereof for all purposes hereof, and payment of or on account of the interest with respect to and principal of and Prepayment Price represented by such Certificate 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 Certificate to the extent of the sum or sums so paid.

Section 2.09. Temporary Certificates. The Certificates may be initially executed and delivered in temporary form exchangeable for definitive Certificates when ready for delivery. The temporary Certificates may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Trustee, shall be in registered form and may contain such reference to any of the provisions of this Trust Agreement as may be appropriate. Every temporary Certificate shall be executed by the Trustee upon the same conditions and in substantially the same manner as the definitive Certificates. If the Trustee executes and delivers temporary Certificates it will execute and furnish definitive Certificates without delay, and thereupon the temporary Certificates may be surrendered, for cancellation, in exchange therefor at the principal corporate trust office of the Trustee in Los Angeles, California, and the Trustee shall deliver in exchange for such temporary Certificates an equal aggregate principal amount of definitive Certificates of the same maturity or maturities. Until so exchanged, the temporary Certificates shall be entitled to the same benefits under this Trust Agreement as definitive Certificates executed and delivered hereunder.

Section 2.10. Certificates Mutilated, Lost, Destroyed or Stolen. If any Certificate shall become mutilated, the Trustee shall execute and deliver a new Certificate of like tenor, maturity and principal amount in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated.

Every mutilated Certificate so surrendered to the Trustee shall be canceled by it and destroyed. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given indemnifying the Trustee, the Corporation and the District, the Trustee, at the expense of the Certificate Owner, shall execute and deliver a new Certificate of like tenor and maturity, and numbered as the Trustee shall determine, in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Certificate executed under this Section and of the expenses which may be incurred by the Trustee under this Section. Any Certificate executed under the provisions of this Section in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of this Trust Agreement with all other Certificates secured by this Trust Agreement. The Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the principal amount of Certificates which may be executed hereunder or for the purpose of determining any percentage of Certificates Outstanding hereunder, but both the original and replacement Certificate shall be treated as one and the same. Notwithstanding any other provision of this Section, in lieu of delivering a new Certificate for a Certificate which has been mutilated, lost, destroyed or stolen and which has matured or has been selected for prepayment, the Trustee may make payment of such Certificate upon receipt of indemnity satisfactory to the Trustee.

Section 2.11. Book-Entry System.

(a) Election of Book-Entry System. Prior to the execution and delivery of the Certificates, the District may provide that such Certificates shall be initially executed and delivered as book-entry Certificates. If the District shall elect to deliver any Certificates in book-entry form, then the District shall cause the delivery of a separate single fully registered certificate (which may be typewritten) for each maturity date of such Certificates in an authorized denomination

corresponding to that total principal amount of the Certificates designated to mature on such date. Upon initial execution and delivery, the ownership of each such Certificate shall be registered in the Certificate registration books in the name of the Nominee, as nominee of the Depository and ownership of the Certificates, or any portion thereof may not thereafter be transferred except as provided in Section 2.11(e).

With respect to book-entry Certificates, 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 Certificates. 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 Certificates, (ii) the delivery to any Participant or any other person, other than an Owner as shown in the Certificate registration books, of any notice with respect to book-entry Certificates, including any notice of prepayment, (iii) the selection by the Depository and its Participants of the beneficial interests in book-entry Certificates to be prepaid in the event the District prepays the Certificates in part, or (iv) the payment by the Depository or any Participant or any other person, of any amount of principal of, premium, if any, or interest with respect to book-entry Certificates. The District and the Trustee may treat and consider the person in whose name each book-entry Certificate is registered in the Certificate registration books as the absolute Owner of such book-entry Certificate for the purpose of payment of principal of, premium and interest with respect to such Certificate, for the purpose of giving notices of prepayment and other matters with respect to such Certificate, for the purpose of registering transfers with respect to such Certificate, and for all other purposes whatsoever. The Trustee shall pay all principal of, premium, if any, and interest with respect to the Certificates only to or upon the order of the respective Owner, as shown in the Certificate 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, premium, if any, and interest with respect to the Certificates to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Certificate registration books, shall receive a Certificate evidencing the obligation to make payments of principal of, premium; if any, and interest with respect to the Certificates. Upon delivery by the Depository to the Owner 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 this Trust Agreement shall refer to such nominee of the Depository.

(b) Selection of Depository. In the event (i) the Depository determines not to continue to act as securities depository for book-entry Certificates, or (ii) the District determines that continuation of the book-entry system is not in the best interest of the beneficial owners of the Certificates 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 Certificate for each of the maturity dates of such book-entry Certificates, registered in the name of such successor or substitute qualified securities depository or its Nominee as provided in subsection 2.11(e) hereof. If the District fails to identify another qualified securities depository to replace the Depository, then the Certificates shall no longer be restricted to being registered in such Certificate registration books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging such Certificates shall designate, in accordance with the provisions of Sections 2.06 and 2.07 hereof.

(c) Payments To Depository. Notwithstanding any other provision of this Trust Agreement to the contrary, so long as all Outstanding Certificates are held in book-entry form and registered in the name of the Nominee, all payments of principal of, prepayment premium, if any, and interest with respect to such Certificate and all notices with respect to such Certificate 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.

(d) Transfer of Certificates to Substitute Depository.

(i) The Certificates shall be initially executed and delivered as provided in Section 2.01 hereof. Registered ownership of such Certificates, 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 2.11(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 2.11(e), upon receipt of all Outstanding Certificates by the Trustee, together with a Written Request of the District to the Trustee designating the Substitute Depository, a single new Certificate, which the District shall prepare or cause to be prepared, shall be executed and delivered for each maturity of Certificates 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 2.11(e), upon receipt of all Outstanding Certificates by the Trustee, together with a Written Request of the District to the Trustee, new Certificates, which the District shall prepare or cause to be prepared, shall be executed and delivered in such denominations and registered in the names of such persons as are requested in a 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 Certificates within a period of less than sixty (60) days from the date of receipt of such Written Request of the District.

(iii) In the case of a partial prepayment or an advance refunding of any Certificates 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 Certificates 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.

(iv) The District and the Trustee shall be entitled to treat the person in whose name any Certificate is registered as the Owner thereof for all purposes of this Trust Agreement 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 Certificates. 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 Certificates, and the Trustee may rely conclusively on its records as to the identity of the Owners of the Certificates.

ARTICLE III

DELIVERY OF CERTIFICATES; DELIVERY COST FUND

Section 3.01. Delivery of Certificates. The Trustee is hereby authorized to execute and deliver Certificates in an aggregate principal amount of \$42,000,000*, upon the Written Order of the District.

Section 3.02. Application of Proceeds of Certificates. The \$ _____ proceeds received from the sale of the Certificates (representing the \$42,000,000* aggregate principal amount of the Certificates, plus \$ _____ in net original issue premium, less \$ _____ representing the Underwriter's discount and \$ _____ representing the premiums on the Bond Insurance Policy[and Reserve Policy], which shall be wired directly by the Underwriter to the Insurer on behalf of the District) shall be deposited with the Trustee and applied as follows:

(a) \$ _____ shall be transferred to the District for deposit in the 2007 Project Fund; and

(b) \$ _____ shall be deposited in the Delivery Cost Fund.

Section 3.03. Validity of Certificates. The validity of the execution and delivery of the Certificates is not dependent on and shall not be affected in any way by any proceedings taken by the District, the Corporation or the Trustee with respect to or in connection with the Installment Purchase Agreement. The recital contained in the Certificates that all acts, conditions and things required by the Constitution and statutes of the State of California and this Trust Agreement to exist, to have happened and to have been performed precedent to and in the delivery thereof do exist, have happened and have been performed in due time, form and manner as required by law shall be conclusive evidence of their validity and of compliance with the provisions of law in their delivery.

Section 3.04. Delivery Cost Fund. There is hereby established with the Trustee the Delivery Cost Fund which the Trustee shall establish and maintain and hold in trust separate and apart from other funds held by it. The moneys in the Delivery Cost Fund shall be used and withdrawn by the Trustee to pay Delivery Costs upon submission of Written Requisitions of the

* Preliminary

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 a proper charge against said fund and that payment for such charge has not previously been made. On _____, 2007, or upon the earlier Written Request of the District, all amounts remaining in the Delivery Cost Fund shall be transferred by the Trustee to the District for deposit into the 2007 Project Fund and the Delivery Cost Fund shall be closed.

Section 3.05. 2007 Project Fund. The District shall establish, maintain and hold a fund separate from any other fund established and maintained by the District designated as the "Revenue Certificates of Participation 2007 Project Fund" (the "2007 Project Fund"). Moneys in the 2007 Project Fund shall be expended for Costs of the 2007 Project in accordance with this Section.

(a) There shall be credited to the 2007 Project Fund the following amounts:

(i) the proceeds of sale of the Certificates required pursuant to Section 2.03 hereof to be transferred to the District by the Trustee for deposit in the 2007 Project Fund; and

(ii) any other funds from time to time deposited in the 2007 Project Fund to pay Costs of the 2007 Project.

(b) The District shall disburse moneys in the 2007 Project Fund from time to time, as needed to pay for Costs of the 2007 Project. In connection with each disbursement, the District shall prepare a Written Order of the District containing the following information: (i) the Written Order Number; (ii) the Capital Improvement Number (CIP) assigned by the District to the work; (iii) the amount to be disbursed, invoice number and copy of invoice; (iv) the name and address of the person, firm or entity to whom payment is being made; (v) a brief, but reasonably specific description of the nature of the obligation; (vi) a statement that the District has not received or been served with notice of any lien, right to lien or claim upon the work subject of the invoice or the right of person or entity being compensated to receive payment therefor, which has not been released or will not be released simultaneously with the payment of the invoice, other than materialman's or mechanic's liens accruing by operation of law; (vii) a statement that, to the best of the knowledge of the District as of the date thereof, no event of default has occurred or is continuing under this Trust Agreement; and (viii) if the invoice relates to a portion of the 2007 Project that has been accepted, a copy of the acceptance and notice of completion.

(c) [The District shall invest funds on deposit in the 2007 Project Fund in Permitted Investments.]

(d) Interest earned on amounts on deposit in the 2007 Project Fund shall be used for Costs of the 2007 Project.

(e) Upon a determination by the District that the work on the 2007 Project has been completed, any amounts remaining in the 2007 Project Fund and not otherwise committed for payment of Costs related to the 2007 Project shall be withdrawn from the 2007 Project Fund and transferred to the Trustee for deposit into the Certificate Payment Fund. After all Costs related to the 2007 Project have been paid, any amounts still in the 2007 Project Fund shall similarly be transferred to the Trustee for deposit in the Certificate Payment Fund and the 2007 Project Fund shall be closed.

ARTICLE IV

PREPAYMENT OF CERTIFICATES

Section 4.01. Terms of Prepayment.

(a) The Certificates shall be subject to prepayment prior to their respective stated maturities, as a whole or in part in the order of maturity as directed by a Written Request of the District provided to the Trustee and by lot within each maturity, on any date, in integral multiples of \$5,000 from prepaid Installment Payments made by the District from Net Proceeds, upon the terms and conditions of, and as provided for in, Section 6.10 of this Trust Agreement, and Sections 6.09 and 6.15 of the Installment Purchase Agreement, at a Prepayment Price equal to the principal amount thereof plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

(b) The Certificates with stated maturities on or after September 1, 2017, shall further be subject to prepayment prior to their respective stated maturities, as a whole or in part, in the order of maturity as directed by a Written Request of the District provided to the Trustee and by lot within each maturity in integral multiples of \$5,000, on any date, on or after September 1, 2016, from optional prepayments of the Installment Payments made by the District pursuant to the Installment Purchase Agreement at a prepayment price equal to the principal amount of such Certificates to be prepaid plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

Section 4.02. Selection of Certificates for Prepayment. Whenever less than all of the Certificates are called for prepayment, the Trustee shall select the Certificates or portions thereof to be prepaid from the Outstanding Certificates in accordance with Section 4.01 hereof. The Trustee shall promptly notify the District in writing of the numbers of the Certificates or portions thereof so selected for prepayment.

Section 4.03. Notice of Prepayment. Notice of prepayment shall be mailed, first class postage prepaid, to the respective Owners of any Certificates designated for prepayment at their addresses appearing on the Certificate registration books and to the Information Services and by registered or certified or overnight mail to the Securities Depositories at least 30 days but not more than 60 days prior to the prepayment date.

With respect to any notice of optional prepayment of Certificates, such notice may state that such prepayment shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such prepayment of moneys sufficient to pay the principal of, premium, if any, and interest with respect to such Certificates to be prepaid and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Trustee shall not be required to prepay such Certificates. In the event that such notice of prepayment contains such a condition and such moneys are not so received, the prepayment shall not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of prepayment was given, that such moneys were not so received.

Each notice of prepayment shall state the date of notice, the prepayment date, the place or places of prepayment and the Prepayment Price, shall designate the maturities, CUSIP numbers, if any, and, if less than all Certificates of any such maturity are to be prepaid, the serial numbers of the

Certificates of such maturity to be prepaid by giving the individual number of each Certificate or by stating that all Certificates between two stated numbers, both inclusive, have been called for prepayment and, in the case of Certificates to be prepaid in part only, the respective portions of the principal amount thereof to be prepaid. Each such notice shall also state that on said date there will become due and payable on each of said Certificates the Prepayment Price thereof or of said specified portion of the principal represented thereby in the case of a Certificate to be prepaid in part only, together with interest accrued with respect thereto to the prepayment date, and that (provided that moneys for prepayment have been deposited with the Trustee) from and after such prepayment date interest with respect thereto shall cease to accrue, and shall require that such Certificates be then surrendered to the Trustee. Any defect in the notice or the mailing thereof will not affect the validity of the prepayment of any Certificate.

Notice of prepayment of Certificates shall be given by the Trustee on behalf of and at the expense of the District.

Section 4.04. Partial Prepayment of Certificate. Upon surrender of any Certificate prepaid in part only, the Trustee shall execute and deliver to the Owner thereof, at the expense of the District, a new Certificate or Certificates of authorized denominations equal in aggregate principal amount to the unprepaid portion of the Certificate surrendered and of the same interest rate and maturity.

Section 4.05. Effect of Prepayment. When notice of prepayment has been duly given as aforesaid, and moneys for payment of the Prepayment Price of, together with interest accrued to the prepayment date with respect to, the Certificates (or portions thereof) so called for prepayment are held by the Trustee, the Certificates (or portions thereof) so called for prepayment shall, on the prepayment date designated in such notice, become due and payable at the Prepayment Price specified in such notice and interest accrued thereon to the prepayment date; and from and after the prepayment date interest represented by the Certificates so called for prepayment shall cease to accrue, said Certificates (or portions thereof) shall cease to be entitled to any benefit or security under this Trust Agreement, and the Owners of said Certificates shall have no rights in respect thereof except to receive payment of said Prepayment Price and accrued interest.

All Certificates prepaid pursuant to the provisions of this Article shall be canceled upon surrender thereof and destroyed by the Trustee.

ARTICLE V

INSTALLMENT PAYMENTS

Section 5.01. Pledge and Deposit of Installment Payments. The Installment Payments are hereby irrevocably pledged to, and shall be used for, the punctual payment of the Certificates, and the Installment Payments shall not be used for any other purpose while any of the Certificates remain Outstanding. This pledge shall constitute a first and exclusive lien on the Installment Payments in accordance with the terms hereof.

All Installment Payments to which the Corporation may at any time be entitled (including income or profit from investments pursuant to Section 5.04) shall be paid directly to the Trustee pursuant to the terms of the Assignment Agreement, and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee within one business day after the receipt thereof; and the Trustee shall deposit all Installment Payments as and when received in the

Certificate Payment Fund. All moneys at any time deposited in the Certificate Payment Fund shall be held by the Trustee in trust for the benefit of the Owners from time to time of the Certificates, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes herein set forth.

Section 5.02. Certificate Payment Fund. There is hereby established with the Trustee the "Certificate 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 Installment Payments remain unpaid. The Trustee shall transfer from the Certificate Payment Fund the following amounts at the times and in the manner hereinafter provided, and shall deposit such amounts in one or more of the following respective funds, each of which the Trustee shall establish and maintain and hold in trust separate and apart from other funds held by it, and each of which shall be disbursed and applied only as hereinafter authorized. Such amounts shall be so transferred to and deposited in the following respective funds in the following order of priority, the requirements of each such fund at the time of deposit to be satisfied before any transfer is made to any fund subsequent in priority:

(a) Interest Fund. The Trustee, on the second business day before each Payment Date (commencing on the second to last business day of August 2007) shall deposit in the Interest Fund an amount representing the portion of the Installment Payments designated as interest coming due on the next succeeding March 1 or September 1, as the case may be.

No deposit need be made into the Interest Fund so long as there shall be in such fund moneys sufficient to pay the interest portion of all Certificates then Outstanding on the next March 1 or September 1, as the case may be.

Except as hereinafter provided, moneys in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest with respect to the Certificates when due and payable (including accrued interest on any Certificates prepaid prior to maturity pursuant to this Trust Agreement).

(b) Principal Fund. The Trustee, on the second business day before each September 1 (commencing on the second to last business day of August 2008), shall deposit in the Principal Fund an amount equal to the principal coming due with respect to the Certificates on the next succeeding September 1.

No deposit need be made into the Principal Fund so long as there shall be in such fund moneys sufficient to pay the portion of all Certificates then Outstanding designated as principal and coming due on the next succeeding September 1.

Except as hereinafter provided, moneys in the Principal Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal with respect to the Certificates when due and payable.

(c) Prepayment Fund. Moneys to be used for prepayment pursuant to Section 4.01 hereof and paid by the District pursuant to Section 7.01 of the Installment Purchase Agreement shall be transferred by the Trustee from the Certificate Payment Fund and deposited in the Prepayment Fund on the prepayment date specified in the Written Request of the District filed with the Trustee pursuant to Section 7.02 of the Installment Purchase Agreement. Said moneys shall be set aside in the Prepayment Fund solely for the purpose of prepaying the Certificates in advance of

their respective stated maturities and shall be applied on or after the date specified for prepayment pursuant to Section 4.01 hereof to the payment of the Prepayment Price with respect to the Certificates to be prepaid upon presentation and surrender of such Certificates.

Section 5.03. Reserve Fund. There is hereby established with the Trustee the "Reserve Fund," which the Trustee covenants to maintain and hold in trust separate and apart from other funds held by it so long as any Installment Payments remain unpaid. The Trustee shall deposit in the Reserve Fund the amounts required to be deposited therein pursuant to the Installment Purchase Agreement and this Trust Agreement and apply moneys in the Reserve Fund in accordance with this Section 5.03. The 2007 Reserve Fund Requirement will initially be funded with the Reserve Policy.

(a) *Deposits*. If one business day prior to any Payment Date the moneys in the Certificate Payment Fund are insufficient to make the payments required by this Trust Agreement with respect to Certificates on such Payment Date, the Trustee shall transfer from the Reserve Fund to the Certificate Payment Fund the amount of such insufficiency. In the event that the Trustee has transferred moneys from the Reserve Fund to the Certificate Payment Fund in accordance with this Section 5.03, upon receipt of the moneys from the District to increase the balance in the Reserve Fund to the 2007 Reserve Fund Requirement, the Trustee shall deposit such moneys in the Reserve Fund.

(b) *Withdrawal of Amounts of Deposit*. If the amount available and contained in the Reserve Fund exceeds an amount equal to the 2007 Reserve Fund Requirement and if the District is not then in default under the Installment Purchase Agreement, the Trustee shall semiannually on or before March 1 and September 1 withdraw the amount of such excess from the Reserve Fund and shall deposit such amount in the Certificate Payment Fund, and for this determination the Trustee shall make a valuation of the Reserve Fund as often as it may deem appropriate, and in any event on or before March 1 and September 1 in each year. In addition, the Trustee shall, on the date all or any portion of the Certificates are discharged in accordance with Section 10.02 hereof; value the Reserve Fund in accordance with this Section and withdraw the excess, if any, on deposit in the Reserve Fund and transfer such amount to or in accordance with the written direction of the District. Except for such withdrawals, all moneys in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of paying principal and interest with respect to the Certificates in the event that no other moneys of the District are available therefor.

(c) *Draws from Reserve Policy; Additional Funding Instruments*. In the event and to the extent that moneys on deposit in the Interest Fund and Principal Account, plus all amounts on deposit in and credited to the Reserve Fund in excess of the amount of the Reserve Policy, are insufficient, as of the second Business Day preceding an Payment Date, to pay the amount of principal and interest with respect to the Certificates on such Payment Date, the Trustee shall execute and deliver to the Insurer a demand for payment in the amount of such insufficiency, up to but not in excess of the amount of the Reserve Policy coverage; provided, however, that in the event that the amount on deposit in, or credited to, the Reserve Fund, in addition to the amount available under the Reserve Policy, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Reserve Policy and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency. The Trustee shall, after submitting to the Insurer the demand for payment as provided above, make available to Insurer all records relating to the funds and accounts maintained under this Trust Agreement. The Trustee shall, upon receipt of moneys received from the draw on the Reserve

Policy, as specified in the demand for payment, credit the Reserve Fund to the extent of moneys received pursuant to such demand for payment.

(d) *Deposit of Substitute Policy or Additional Funding Instrument.* With the written consent of the Insurer, the District may replace the Reserve Policy, in whole or in part, by depositing with the Trustee one or more policies of insurance, letters of credit or surety bonds in an aggregate amount sufficient to meet the 2007 Reserve Fund Requirement, if the following requirements are met: (i) a surety bond or other financial undertaking issued by a financial institution may be deposited if the unsecured obligations of or the claims paying ability of such financial institution has the highest rating then issued by S&P and Moody's, or (ii) a policy of insurance issued by an insurance company, if the obligations insured by such company have the highest rating then issued by S&P or Moody's, delivered to the Trustee to satisfy the obligation to deposit moneys to the Reserve Account in connection with the Certificates; and (iii) as long as the Certificates are insured, an opinion of counsel acceptable to the Insurer and in form and substance satisfactory to the Insurer.

Section 5.04. Investment of Moneys in Special Funds. Any moneys in the Delivery Cost Fund, the Certificate Payment Fund, the Interest Fund, the Principal Fund, the Reserve Fund and the Prepayment Fund shall be invested upon the Written Request of the District, by the Trustee, in Permitted Investments which will mature on or before the dates when such moneys are scheduled to be needed for payment from such fund. Securities acquired as an investment of moneys in a fund shall be credited to such fund.

In the absence of written investment direction from the District, the Trustee shall invest moneys held by it solely in Permitted Investments specified in clause (d) of the definition thereof.

Any interest, profit or other income on such investments will be deposited when received by the Trustee in the Reserve Fund to the extent the amount available and contained therein is less than the 2007 Reserve Fund Requirement and thereafter in the Certificate Payment Fund established hereunder.

Subject to the further provisions of Section 6.03 hereof; the Trustee may sell or present for prepayment any obligations so purchased at the direction of the District whenever it shall be necessary in order to provide moneys to meet any payment, and the Trustee shall not be liable or responsible for any loss resulting from such investment. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of any investment and shall be entitled to its customary fee therefor. The Trustee may commingle any of the funds or accounts established pursuant to this Trust Agreement into a separate fund or funds for investment purposes only; provided, however, that all funds or accounts held by the Trustee hereunder shall be accounted for separately notwithstanding such commingling.

Section 5.05. Pledge of Moneys in Funds. All amounts on deposit in the, the Certificate Payment Fund, the Interest Fund, the Principal Fund, the Prepayment Fund and the Reserve Fund are hereby irrevocably pledged to the Owners of the Certificates as provided herein. This pledge shall constitute a first and exclusive lien on the Delivery Cost Fund, the Certificate Payment Fund, the Interest Fund, the Principal Fund, the Prepayment Fund and the Reserve Fund for the benefit of the Owners of the Certificates in accordance with the terms hereof and of the Installment Purchase Agreement. Amounts deposited in the Rebate Fund are not pledged to the Owners of the Certificates.

Section 5.06. Rebate Fund.

(a) *General.* The Trustee shall establish a special fund to be known as the Rebate Fund. All amounts at any time on deposit in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the requirement to make rebate payments to the United States (the "Rebate Requirement") pursuant to Section 148 of the Code and the Treasury Regulations promulgated thereunder. Such amounts shall be free and clear of any lien under this Trust Agreement and shall be governed by this Section and Section 6.03 of this Trust Agreement and by the Tax Certificate. The Trustee shall be deemed conclusively to have complied with the Rebate Requirement if it follows the directions of the District, and shall have no independent responsibility to, or liability resulting from its failure to, enforce compliance by the District with the Rebate Requirement.

(b) *Deposits.*

(i) Within 45 days of the end of each Certificate Year (as such term is defined in the Tax Certificate), (A) the District shall calculate or cause to be calculated with respect to the Certificates the amount that would be considered the "rebate amount" within the meaning of Section 1.148-3 of the Treasury Regulations, using as the "computation date" for this purpose the end of such Certificate Year, and (B) upon the Written Request of the District, the Trustee shall deposit to the Rebate Fund from deposits from the District, if and to the extent required, amounts sufficient to cause the balance in the Rebate Fund to be equal to the "rebate amount" so calculated.

(ii) The Trustee shall not be required to deposit any amount to the Rebate Fund in accordance with the preceding paragraph if the amount on deposit in the Rebate Fund prior to the deposit required to be made under this subsection (b) equals or exceeds the "rebate amount" calculated in accordance with the preceding paragraph. Such excess may be withdrawn from the Rebate Fund to the extent permitted under subsection (g) of this Section.

(iii) The District shall not be required to calculate the "rebate amount," and the Trustee shall not be required to deposit any amount to the Rebate Fund in accordance with this subsection (b), with respect to all or a portion of the proceeds of the Certificates (including amounts treated as proceeds of the Certificates) (1) to the extent such proceeds satisfy the expenditure requirements of Section 148(f)(4)(B) or Section 148(f)(4)(C) of the Code or Section 1.148-7(d) of the Treasury Regulations, whichever is applicable, and otherwise qualify for the exception to the Rebate Requirement pursuant to whichever of said sections is applicable, (2) to the extent such proceeds are subject to an election by the District under Section 148(f)(4)(C)(vii) of the Code to pay a 1½% penalty in lieu of arbitrage rebate in the event any of the percentage expenditure requirements of Section 148(f)(4)(C) are not satisfied, or (3) to the extent such proceeds qualify for the exception to arbitrage rebate under Section 148(f)(4)(A)(ii) of the Code for amounts in a "bona fide debt service fund." In such event, and with respect to such amounts, the District shall provide written direction to the Trustee that the Trustee shall not be required to deposit any amount to the Rebate Fund in accordance with this subsection (b).

(c) *Withdrawal Following Payment of Certificates.* Any funds remaining in the Rebate Fund after prepayment of all the Certificates and any amounts described in paragraph (ii) of subsection (d) of this Section, or provision made therefor satisfactory to the Trustee, including accrued interest and payment of any applicable fees to the Trustee, shall be withdrawn by the Trustee and remitted to the District.

(d) *Withdrawal for Payment of Rebate.* Upon the Written Request of the District, but subject to the exceptions contained in subsection (b) of this Section to the requirement to calculate the “rebate amount” and make deposits to the Rebate Fund, the Trustee shall pay to the United States, from amounts on deposit in the Rebate Fund:

(i) not later than 60 days after the end of (A) the fifth Certificate Year, and (B) each fifth Certificate Year thereafter, an amount that, together with all previous rebate payments, is equal to at least 90% of the “rebate amount” calculated as of the end of such Certificate Year in accordance with Section 1.148 3 of the Treasury Regulations; and

(ii) not later than 60 days after the payment of all Certificates, an amount equal to 100% of the “rebate amount” calculated as of the date of such payment (and any income attributable to the “rebate amount” determined to be due and payable) in accordance with Section 1.148 3 of the Treasury Regulations.

(e) *Rebate Payments.* Each payment required to be made pursuant to subsection (d) of this Section 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, which shall be completed by or on behalf of the District and provided to the Trustee.

(f) *Deficiencies in the Rebate Fund.* In the event that, prior to the time any payment is 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 the amount of such deficiency and direct the Trustee to deposit an amount received from the District equal to such deficiency into the Rebate Fund prior to the time such payment is due.

(g) *Withdrawals of Excess Amounts.* In the event that immediately following the calculation required by subsection (b) of this Section, but prior to any deposit made under said subsection, the amount on deposit in the Rebate Fund exceeds the “rebate amount” calculated in accordance with said subsection, upon Written Request of the District, the Trustee shall withdraw the excess from the Rebate Fund and credit such excess to the Certificate Payment Fund.

(h) *Record Keeping.* The District shall retain records of all determinations made hereunder until six years after the complete retirement of the Certificates.

(i) *Survival of Defeasance.* Notwithstanding anything in this Trust Agreement to the contrary, the Rebate Requirement shall survive the defeasance or payment in full of the Certificates.

Section 5.07. Payment Procedure Pursuant to the Bond Insurance Policy. If, on the third Business Day prior to the related scheduled Interest Payment Date or the date to which Certificate maturity has been accelerated (“Insurance Payment Date”) there is not on deposit with the Trustee, after making all transfers and deposits required under this Trust Agreement, moneys sufficient to pay the principal of and interest with respect to the Certificates due on such Insurance Payment Date, the Trustee shall give notice to the Insurer and to its designated agent (if any) (the “Insurer’s Fiscal Agent”) by telephone or telecopy of the amount of such deficiency by _____ p.m., _____ time, on such Business Day. If, on the second Business Day prior to the related Insurance Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest with respect to the Certificates due on such Insurance Payment Date, the Trustee shall make a claim under

the Bond Insurance Policy and give notice to the Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest with respect to the Certificates and the amount required to pay principal with respect to the Certificates, confirmed in writing to the Insurer and the Insurer's Fiscal Agent by _____ p.m., _____ time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Bond Insurance Policy.

[In the event the claim to be made is for a mandatory sinking fund prepayment, upon receipt of the moneys due, the Trustee shall authenticate and deliver to affected Certificateholders who surrender their Certificates a new Certificate or Certificates in an aggregate principal amount equal to the unprepaid principal portion of the Certificate surrendered. The Trustee shall designate any portion of payment of principal represented by Certificates paid by the Insurer, whether by virtue of mandatory sinking fund prepayment, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Certificates registered to the then current Certificateholder, whether DTC or its nominee or otherwise, and shall issue a replacement Certificate to the Insurer, registered in the name of the Insurer, in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Certificate shall have no effect on the amount of principal or interest payable by the District with respect to any Certificate or the subrogation rights of the Insurer.]

The Trustee shall keep a complete and accurate record of all funds deposited by the Insurer into the Policy Payments Account (as defined below) and the allocation of such funds to payment of interest on and principal paid in respect of any Certificate. The Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

Upon payment of a claim under the Bond Insurance Policy the Trustee shall establish a "Policy Payments Account" which the Trustee covenants to maintain and hold in trust separate and apart from other funds held by it for the benefit of Certificateholders and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Bond Insurance Policy in trust on behalf of Certificateholders and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to Certificateholders in the same manner as principal and interest payments are to be made with respect to the Certificates under Article II hereof. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay principal and interest with respect to Certificates with other funds available to make such payments.

Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee.

Any funds remaining in the Policy Payments Account following an Interest Payment Date shall promptly be remitted to the Insurer.

The Insurer shall, to the extent it makes any payment of principal or interest with respect to the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy.

On or after an Event of Default, the District shall pay or reimburse the Insurer any and all charge, fees, costs and expenses which the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in this Trust Agreement or the Installment Purchase Agreement (ii) the pursuit of any remedies under this Trust Agreement or the Installment Purchase Agreement or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, whether or not executed or completed, (iv) the violation by the District of any law, rule or regulation, or any judgment, order or decree applicable to it or (v) any litigation or other dispute in connection with this Trust Agreement or the Installment Purchase Agreement or the transactions contemplated thereby, other than amounts resulting from the failure of the Insurer to honor its obligations under the Bond Insurance Policy.]

ARTICLE VI

COVENANTS

Section 6.01. Corporation and District to Perform Installment Purchase Agreement. The Corporation and District covenant and agree with the Owners of the Certificates to perform all obligations and duties imposed on them under the Installment Purchase Agreement and, together with the Trustee, to enforce such Installment Purchase Agreement against the other party thereto in accordance with its terms.

The Corporation and the District will in all respects promptly and faithfully keep, perform and comply with all the terms, provisions, covenants, conditions and agreements of the Installment Purchase Agreement to be kept, performed and complied with by it.

The Corporation and the District agree not to do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Installment Purchase Agreement.

Section 6.02. Budgets. On or prior to the fifteenth day of each Fiscal Year, the District shall certify to the Trustee that the amounts budgeted for payment of Installment Payments are fully adequate for the payment of all Installment Payments due under the Installment Purchase Agreement for such Fiscal Year. If the amounts so budgeted are not adequate for the payment of Installment Payments due under the Installment Purchase Agreement, the District will take such action as may be necessary to cause such annual budget to be amended, corrected or augmented so as to include therein the amounts required to be raised by the District in the then ensuing Fiscal Year for the payment of Installment Payments due under the Installment Purchase Agreement and will notify the Trustee of the proceedings then taken or proposed to be taken by the District.

Section 6.03. Tax Covenants.

(a) *General.* The District hereby covenants with the Owners of the Certificates that, notwithstanding any other provisions of this Installment Purchase Agreement, it shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest on the Certificates under Section 103 of the Code. The District shall not, directly or indirectly, use or permit the use of proceeds of the Certificates or any of the property financed or refinanced with proceeds of the Certificates, or any portion thereof, by any person other than a governmental unit (as such term is used in Section 141 of the Code), in

such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest on the Certificates.

(b) *Use of Proceeds.* The District shall not take any action, or fail to take any action, if any such action or failure to take action would cause the Certificates to be “private activity bonds” within the meaning of Section 141 of the Code, and in furtherance thereof, shall not make any use of the proceeds of the Certificates or any of the property financed or refinanced with proceeds of the Certificates, or any portion thereof, or any other funds of the District, that would cause the Certificates to be “private activity bonds” within the meaning of Section 141 of the Code. To that end, so long as any Certificates are outstanding, the District, with respect to such proceeds and property and such other funds, will comply with applicable requirements of the Code and all regulations of the United States Department of the Treasury issued thereunder and under Section 103 of the Internal Revenue Code of 1954, as amended (the “1954 Code”), to the extent such requirements are, at the time, applicable and in effect. The District shall establish reasonable procedures necessary to ensure continued compliance with Section 141 of the Code (or, if applicable, the 1954 Code) and the continued qualification of the Certificates as “governmental bonds.”

(c) *Arbitrage.* The District shall not, directly or indirectly, use or permit the use of any proceeds of any Certificates, or of any property financed thereby, or other funds of the District, or take or omit to take any action, that would cause the Certificates to be “arbitrage bonds” within the meaning of Section 148 of the Code. To that end, the District shall comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to the Certificates.

(d) *Federal Guarantee.* The District shall not make any use of the proceeds of the Certificates or any other funds of the District, or take or omit to take any other action, that would cause the Certificates to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(e) *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.

(f) *Hedge Bonds.* The District will make no use of the proceeds of the Certificates or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the Certificates 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 Certificates for federal income tax purposes.

(g) *Compliance with Tax Certificate.* In furtherance of the foregoing tax covenants of this Section 6.03, the District covenants that it will comply with the provisions of the Tax Certificate, which is incorporated herein as if fully set forth herein. These covenants shall survive payment in full or defeasance of the Certificates.

Section 6.04. Accounting Records and Reports. The Trustee shall keep or cause to be kept proper books of record and account in which complete and correct entries shall be made of all transactions made by it relating to the receipts, disbursements, allocation and application of the Installment Payments, and such books shall be available upon reasonable prior notice for inspection

by the District and by any Owner of Certificates, or his agent or representative, at reasonable hours and under reasonable conditions. Each month, so long as the Certificates are Outstanding, the Trustee shall furnish to the District a statement covering receipts, disbursements, allocation and application of amounts on deposit in the funds and accounts created hereunder held by it.

Section 6.05. Compliance with Trust Agreement. The Trustee will not execute, or permit to be executed, any Certificates in any manner other than in accordance with the provisions of this Trust Agreement, and the District will not suffer or permit any default by it to occur under this Trust Agreement, but will faithfully observe and perform all the covenants, conditions and requirements hereof.

Section 6.06. Observance of Laws and Regulations. To the extent necessary to assure their performance hereunder, the Corporation and the District will well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them 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 Corporation or 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 6.07. Compliance with Contracts. The District shall comply with the terms, covenants and provisions, express or implied, of all contracts for the use of the 2007 Project by the District, and all other contracts and agreements affecting or involving the 2007 Project to the extent that the District is a party thereto.

Section 6.08. Prosecution and Defense of Suits. The District shall promptly, upon request of the Trustee or any Certificate Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Water System or any part thereof, whether now existing or hereafter developing, shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and save the Trustee, the Corporation and every Certificate Owner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

The District shall defend against every suit, action or proceeding at any time brought against the Trustee, the Corporation or any Certificate Owner upon any claim arising out of the receipt, application or disbursement of any of the Installment Payments or involving the rights of the Trustee, the Corporation or any Certificate Owner under this Trust Agreement; provided that the Trustee, the Corporation or any Certificate Owner at such party's election may appear in and defend any such suit, action or proceeding. The District shall indemnify and hold harmless the Trustee, the Corporation and the Certificate Owners against any and all liability claimed or asserted by any person, arising out of such receipt, application or disbursement, and shall indemnify and hold harmless the Certificate Owners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation to which any of them may become a party by reason of ownership of Certificates. The District shall promptly reimburse the Corporation or any Certificate Owner in the full amount of any attorneys' fees or other expenses which the Corporation or such Owner may incur in litigation or otherwise in order to enforce such party's rights under this Trust

Agreement or the Certificates, provided that such litigation shall be concluded favorably to such party's contentions therein.

Section 6.09. Recordation and Filing. The Trustee, upon written direction of the District, shall record, register, file, renew, refile and re-record all such documents, including financing statements, as may be required by law in order to maintain a security interest in this Trust Agreement and the Assignment Agreement, all in such manner, at such times and in such places as may be required by, and to the extent permitted by, law in order fully to preserve, protect and perfect the security of the Certificate Owners and the rights and security interests of the Trustee. The Trustee, upon written direction of the District, shall (subject to Section 8.05) do whatever else may be necessary or be reasonably required in order to perfect and continue the lien of this Trust Agreement and the Assignment Agreement.

Section 6.10. Eminent Domain. If all or any part of the 2007 Project shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain), the Net Proceeds therefrom shall be applied in the manner specified in Section 6.15 of the Installment Purchase Agreement.

Section 6.11. Further Assurances. Whenever and so often as requested so to do by the Trustee or any Certificate Owner, the Corporation and the District will promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things, as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Certificate Owners all rights, interest, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by this Trust Agreement.

Section 6.12. Continuing Disclosure. The District hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of this Trust Agreement, failure of the District to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee may (and, at the request of the Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Certificates and upon receipt of indemnification acceptable to the Trustee, shall) or any Owner of Certificates 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 (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes."

ARTICLE VII

DEFAULT AND LIMITATION OF LIABILITY

Section 7.01. Notice of Non-Payment. In the event of delinquency in the payment of any Installment Payments due by the District pursuant to the Installment Purchase Agreement, the Trustee shall, after one business day following the date upon which such delinquent Installment Payment was due, immediately give written notice of the delinquency and the amount of the delinquency to the District and the Corporation and so long as the Bond Insurance Policy is in full

force and effect, to the Insurer. Notwithstanding any other provision of this Trust Agreement, the Trustee shall immediately notify Insurer if at any time there are insufficient moneys to make any payments of principal and/or interest as required and immediately upon the occurrence of any Event of Default under this Trust Agreement.

Section 7.02. Action on Default or Termination. Upon the occurrence of an Event of Default, which event shall constitute a default hereunder, and in each and every such case during the continuance of such Event of Default, the Trustee or the Owners of not less than a majority in aggregate principal amount of Certificates at the time Outstanding shall at the written direction of Insurer so long as the Bond Insurance Policy is in full force and effect, and shall be entitled, with the written consent of Insurer so long as the Bond Insurance Policy is in full force and effect, in each case upon notice in writing to the District, to exercise the remedies provided to the Corporation in the Installment Purchase Agreement.

Upon declaration of the entire principal amount of the unpaid Installment Payments and the accrued interest thereon to be due and payable immediately and provided such declaration is not rescinded or annulled, all in accordance with Section 8.01 of the Installment Purchase Agreement, the Trustee may apply all moneys received as Installment Payments and all moneys held in any fund or account hereunder to the payment of the entire principal amount of the Certificates and the accrued interest with respect thereto, with interest on the overdue Certificates at the rate or rates of interest applicable to the Certificates if paid in accordance with their terms.

Section 7.03. Other Remedies of the Trustee. The Trustee shall at the written direction of Insurer so long as the Bond Insurance Policy is in full force and effect, and shall have the right with the written consent of Insurer so long as the Bond Insurance Policy is in full force and effect --

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

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

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

Section 7.04. Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract; provided however that so long as the Bond Insurance Policy is in full force and effect, the Trustee shall not waive any default or breach of duty or contract without the written consent of Insurer. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee.

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

Section 7.05. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law.

Section 7.06. No Obligation by the District to Owners. Except for the payment of Installment Payments when due in accordance with the Installment Purchase Agreement and the performance of the other covenants and agreements of the District contained in said Installment Purchase Agreement and herein, the District shall have no obligation or liability to the Owners of the Certificates with respect to this Trust Agreement or the execution, delivery or transfer of the Certificates, or the disbursement of Installment Payments to the Owners by the Trustee; provided however that nothing contained in this Section shall affect the rights, duties or obligations of the Trustee expressly set forth herein.

Section 7.07. Trustee Appointed Agent for Certificateowners; Direction of Proceedings. The Trustee is hereby appointed the agent and attorney of the Owners of all Certificates Outstanding hereunder for the purpose of filing any claims relating to the Certificates. The Owners of a majority in aggregate principal amount of the Certificates Outstanding hereunder shall, upon tender to the Trustee of reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such direction, have the right to direct the method and place of conducting all remedial proceedings by the Trustee, with the written consent of Insurer so long as the Bond Insurance Policy is in full force and effect, provided such direction shall be in accordance with law and the provisions of this Trust Agreement 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 Certificate Owners not parties to such a direction.

Section 7.08. Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding pursuant to Section 7.07 hereof or upon the written direction of Insurer so long as the Bond Insurance Policy is in full force and effect, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Certificates, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default hereunder, discontinue, withdraw, compromise or settle, or otherwise dispose of, any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of at least a majority in principal amount of the Certificates Outstanding hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation; provided further, however, that the Trustee shall not discontinue, withdraw, compromise or settle, or otherwise dispose of, any such litigation without the written consent of Insurer so long as the Bond Insurance Policy is in full force and effect.

Section 7.09. Limitation on Certificate Owners' Right to Sue. No Owner of any Certificate executed and delivered hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Trust Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default hereunder; (b) the Owners of at least a majority in aggregate principal amount of all the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted 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.

Such notification, request, tender or indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Certificates of any remedy hereunder; it being understood and intended that no one or more Owners of Certificates shall have any right in any manner whatever by his or their action to enforce any right under this Trust Agreement, except in the manner herein provided, and that all proceedings at law or in equity to enforce any provision of this Trust Agreement shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Owners of the Outstanding Certificates.

The right of any Owner of any Certificate to receive payment of the principal of (and premium, if any) and interest on such Certificate out of Revenues, as herein and therein provided, on and after the respective due dates expressed in such Certificate, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Owner, notwithstanding the foregoing provisions of this Section or Section 7.10 or any other provision of this Trust Agreement.

Section 7.10. No Obligation with Respect to Performance by Trustee. Neither the District nor the Corporation shall have any obligation or liability to any of the other parties hereto or to the Owners of the Certificates with respect to the performance by the Trustee of any duty imposed upon it under this Trust Agreement.

Section 7.11. No Liability to Owners for Payment. The Corporation shall not have any obligation or liability to the Owners of the Certificates with respect to the payment of the Installment Payments by the District when due, or with respect to the performance by the District of any other covenant made by it in the Installment Purchase Agreement or herein. Except as provided in this Trust Agreement, the Trustee shall not have any obligation or liability to the Owners of the Certificates with respect to the payment of the Installment Payments by the District when due, or with respect to the performance by the District of any other covenant made by it in the Installment Purchase Agreement or herein.

Section 7.12. No Responsibility for Sufficiency. The Trustee shall not be responsible for the sufficiency of this Trust Agreement, the Installment Purchase Agreement, or of the assignment made to it by the Assignment Agreement of rights to receive Installment Payments pursuant to the Installment Purchase Agreement, or the value of or title to the 2007 Project. The Trustee shall not be responsible or liable for selection or liquidation of investments or any loss suffered in connection with any investment of funds made by it under the terms of and in accordance with this Trust Agreement.

Section 7.13. Indemnification of Trustee. The District shall indemnify the Trustee and hold it harmless against any loss, liability, expenses or advances, including but not limited to fees and expenses of counsel and other experts, incurred or made without negligence or willful misconduct on the part of the Trustee, (i) in the exercise and performance of any of the powers and duties hereunder or under the Installment Purchase Agreement by the Trustee, (ii) relating to or arising out of the 2007 Project, or the conditions, occupancy, use, possession, conduct or management of, or work done in or about, or from the planning, design, acquisition, installation or construction of the 2007 Project or any part thereof, or (iii) arising out of or relating to any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading in any official statement or other offering circular utilized in connection with the sale of the Certificates, including the costs and expenses of defending itself against any claim of liability arising under this Trust Agreement. Such indemnity shall survive payment of the Certificates and discharge of this Trust Agreement or resignation or removal of the Trustee.

Section 7.14. Insurer's Rights. Anything in this Trust Agreement to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under this Trust Agreement.

Notwithstanding anything in the Installment Purchase Agreement or herein, the Trustee, in determining whether an Event of Default has occurred in the due and punctual payment of any Installment Payment or whether a payment on any Installment Payment has been made under the Installment Purchase Agreement, no effect shall be given to payments made under the Bond Insurance Policy.

ARTICLE VIII

THE TRUSTEE

Section 8.01. Employment of Trustee. In consideration of the recitals hereinabove set forth and for other valuable consideration, the District hereby agrees to employ the Trustee to receive, hold, invest and disburse the moneys received pursuant to the Installment Purchase Agreement for credit to the various funds and accounts established by this Trust Agreement; to execute, deliver and transfer the Certificates; and to apply and disburse the Installment Payments received from the District to the Owners of Certificates; and to perform certain other functions; all as herein provided and subject to the terms and conditions of this Trust Agreement.

Section 8.02. Acceptance of Employment. In consideration of the compensation herein provided for, the Trustee accepts the employment above referred to subject to the terms and conditions of this Trust Agreement.

Section 8.03. Trustee; Duties, Removal and Resignation. By executing and delivering this Trust Agreement, the Trustee accepts the duties and obligations of the Trustee provided in this Trust Agreement, but only upon the terms and conditions set forth in this Trust Agreement.

The District may, with the written consent of Insurer so long as the Bond Insurance Policy is in full force and effect, by written request to the Trustee, remove the Trustee and appoint a successor Trustee; provided, however, that if the District is in default under the Installment Purchase

Agreement, the Owners of a majority in aggregate principal amount of all Certificates Outstanding, with the written consent of Insurer so long as the Bond Insurance Policy is in full force and effect, or Insurer so long as the Bond Insurance Policy is in full force and effect may, by written request to the Trustee, remove the Trustee and appoint a successor Trustee. The Trustee may be removed at any time at the request of the Insurer, for any breach of the trust set forth herein. Any such successor shall be a bank or trust company doing business and having a corporate trust office in California, which has (or the parent holding company of which has) a combined capital (exclusive of borrowed capital) and surplus of at least seventy-five million dollars (\$75,000,000) and subject to supervision or examination by federal or state authorities and, so long as the Bond Insurance Policy is in full force and effect, shall be approved in writing by Insurer. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining Corporation above referred to, then for the purposes of this Section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice to the District and, so long as the Bond Insurance Policy is in full force and effect, to Insurer and by giving to the Certificate Owners notice of such resignation by mail at the addresses shown on the registration books maintained by the Trustee. Upon receiving such notice of resignation, the District shall promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event that the District does not appoint a successor Trustee within thirty (30) days following receipt of such notice of resignation, the resigning Trustee may at the expense of the District petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective upon written acceptance of appointment by the successor Trustee.

Section 8.04. Compensation of the Trustee. The District shall from time to time, subject to any agreement in effect with the Trustee, pay to the Trustee reasonable compensation for its services and shall reimburse the Trustee for all its advances and expenditures, including but not limited to advances to and fees and expenses of independent appraisers, accountants, consultants, counsel, agents and attorneys-at-law or other experts employed by it in the exercise and performance of its powers and duties hereunder. Such compensation and reimbursement shall be paid by the District and amounts owing therefor shall constitute a charge on the moneys in the Certificate Payment Fund and payable by the District; provided, however, that the Trustee shall not otherwise have any claims, except in accordance with Section 7.13 hereof and Section 8.02 of the Installment Purchase Agreement, or lien for payment of compensation for its services against any other moneys held by it in the funds or accounts established hereunder but may take whatever legal actions are lawfully available to it directly against the District. The obligations of the District under this Section shall survive resignation or removal of the Trustee and payment of the Certificates and discharge of this Trust Agreement.

Section 8.05. Protection of the Trustee. The Trustee shall be protected and shall incur no liability in acting or refraining from acting or proceeding in good faith upon any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition, order, facsimile transmission, electronic mail or other paper or document which it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of this Trust Agreement, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy

of such statements. The Trustee shall not be bound to recognize any person as an Owner of any Certificate or to take any action at the request of any such person unless such Certificate shall be deposited with the Trustee or satisfactory evidence of the ownership of such Certificate shall be furnished to the Trustee. The Trustee may consult with counsel, who may be counsel to the Corporation or 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 in accordance therewith.

Whenever in the administration of its duties under this Trust Agreement, 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) shall be deemed to be conclusively proved and established by a certificate of the Corporation or the District and such certificate shall be full warranty to the Trustee for any action taken or suffered under the provisions of this Trust Agreement upon the faith thereof, but in its discretion the Trustee may (but shall have no duty), in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Certificates provided pursuant to this Trust Agreement, and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to this Trust Agreement. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the District or the Corporation, and may act as depository, trustee, or agent for any committee or body of Owners of Certificates or of obligations of the Corporation or the District as freely as if it were not Trustee hereunder.

The Trustee may, to the extent reasonably necessary, execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents, or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its duties hereunder, and the Trustee shall not be answerable for the default or misconduct of any such attorney, agent or receiver selected by it with reasonable care. The Trustee shall not be answerable for the exercise of any discretion or power under this Trust Agreement or in the performance of its duties hereunder or for anything whatever in connection with the funds and accounts established hereunder, except only for its own willful misconduct or negligence.

The recitals, statements and representations by the District or the Corporation contained in this Trust Agreement or in the Certificates shall be taken and construed as made by and on the part of the District or Corporation and not by the Trustee and the Trustee does not assume, and shall not have, any responsibility or obligations for the correctness of any thereof.

The Trustee undertakes to perform such duties, and only such duties as are specifically set forth in this Trust Agreement and no implied duties or obligations shall be read into this Trust Agreement against the Trustee.

No provision in this Trust Agreement shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not assured to it.

In accepting the trust hereby created, the Trustee acts solely as Trustee for the Owners and not in its individual capacity and all persons, including without limitation the Owners and the District or the Corporation having any claim against the Trustee arising from this Trust Agreement shall look only to the funds and accounts held by the Trustee hereunder for payment except as otherwise provided herein. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Certificates.

The Trustee makes no representation or warranty, express or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the District or the Corporation of the 2007 Project. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Installment Purchase Agreement or this Trust Agreement for the existence, furnishing or use of the 2007 Project.

The Trustee shall not be deemed to have knowledge of any Event of Default hereunder or under the Installment Purchase Agreement unless and until it shall have actual knowledge thereof or have received notice thereof at its corporate trust office at the address set forth in Section 11.16 hereof. The Trustee shall, during the existence of any Event of Default (which has not been cured) use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

The Trustee shall not be accountable for the use or application by the District, or the Corporation or any other party of any funds which the Trustee has released in accordance with the terms of this Trust Agreement.

Section 8.06. Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business (provided such company is eligible under Section 8.03 hereof), shall be the successor to the Trustee without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

Section 8.07. Force Majeure. 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 or 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 project, 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.

Section 8.08. Insurer Voting. Notwithstanding anything contained in this Article VIII, so long as the Bond Insurance Policy is in full force and effect, the Insurer shall be deemed to be the owner of all Certificates for purposes of exercising any voting right or privilege or giving any consent or direction or taking any other action pursuant to this Article VIII.

Section 8.09. Notices. Notwithstanding any other provision hereof, the Trustee shall immediately notify the Insurer if at any time there are insufficient moneys to make any Installment Payments as required and within 30 days upon the occurrence of any event of default hereunder.

ARTICLE IX

AMENDMENT OF TRUST AGREEMENT

Section 9.01. Amendments Permitted. (a) This Trust Agreement and the rights and obligations of the District and of the Owners of the Certificates and of the Trustee may be modified or amended at any time by an amendment hereto which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in Section 11.04 hereof, and, so long as the Bond Insurance Policy is in full force and effect, the written consent of Insurer shall have been filed with the Trustee. No such modification or amendment shall (1) extend the stated maturities of the Certificates, or reduce the rate of interest represented thereby, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any premium payable on the prepayment thereof; without the consent of the Owner of each Certificate so affected, or (2) reduce the aforesaid percentage of Owners of Certificates whose consent is required for the execution of any amendment or modification of this Trust Agreement, or (3) modify any of the rights or obligations of the Trustee or the Corporation without its written consent thereto.

(b) This Trust Agreement and the rights and obligations of the Corporation and the District and of the Owners of the Certificates may also be modified or amended at any time by an amendment hereto which shall become binding upon adoption, without the consent of the Owners of any Certificates, but only to the extent permitted by law and only for any one or more of the following purposes --

(1) to add to the covenants and agreements of the Corporation or the District contained in this Trust Agreement other covenants and agreements thereafter to be observed or to surrender any right or power herein reserved to or conferred upon the Corporation or the District, and which shall not adversely affect the interests of the Owners of the Certificates;

(2) to cure, correct or supplement any ambiguous or defective provision contained in this Trust Agreement or in regard to questions arising under this Trust Agreement, as the Corporation or the District may deem necessary or desirable and which shall not adversely affect the interests of the Owners of the Certificates; and

(3) to make such other amendments or modifications as may be in the best interests of the Owners of the Certificates.

Any provision of this Trust Agreement expressly recognizing or granting rights in or to Insurer may not be amended in any manner which affects the rights of Insurer hereunder without the prior written consent of Insurer. Copies of any amendments pursuant to Article IX shall be sent to Standard and Poor's.

Section 9.02. Endorsement or Replacement of Certificates After Amendment or Supplement. After the effective date of any action taken as hereinabove provided, the Trustee may determine that the Certificates may bear a notation by endorsement in form approved by the Trustee

as to such action, and in that case upon demand of the Trustee to the Owner of any Outstanding Certificate and presentation of such Owner's Certificate for such purpose at the principal corporate trust office of the Trustee a suitable notation as to such action shall be made on such Certificate. If the Trustee shall so determine, new Certificates so modified as in the opinion of the Trustee shall be necessary to conform to such action shall be prepared, and in that case upon demand of the Trustee to the Owner of any Outstanding Certificates such new Certificates shall be exchanged at the principal corporate trust office of the Trustee without cost to each Owner for Certificates then Outstanding upon surrender of such Outstanding Certificates.

Section 9.03. Amendment of Particular Certificates. The provisions of this article shall not prevent any Owner from accepting any amendments to the particular Certificates held by him, provided that due notation thereof is made on such Certificates.

ARTICLE X

DEFEASANCE

Section 10.01. Discharge of Trust Agreement. When the obligations of the District under the Installment Purchase Agreement shall cease pursuant to Article IX of the Installment Purchase Agreement (except for the right of the Trustee and the obligation of the District to have the money and Permitted Investments mentioned therein applied to the payment of Installment Payments as therein set forth and the obligation to apply moneys on deposit in the Rebate Fund as provided in Section 5.06), then and in that case the obligations created by this Trust Agreement shall thereupon cease, terminate and become void except for the obligation of the District to direct the Trustee to apply money on deposit in the Rebate Fund as provided herein which shall continue until such moneys are so applied and the right of the Owners to have applied and the obligation of the Trustee to apply such moneys and Permitted Investments to the payment of the Certificates as herein set forth, and subject to application of moneys on deposit in the Rebate Fund as provided in Section 5.06, the Trustee shall turn over to the District, after provision for payment of amounts due the Trustee hereunder, as an overpayment of Installment Payments, any surplus in the Certificate Payment Fund and all balances remaining in any other funds or accounts other than moneys and Permitted Investments held for the payment of the Certificates at maturity or on prepayment, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the benefit of the Owners and shall be applied by the Trustee to the payment, when due, of the principal and interest and premium, if any, represented by the Certificates, and after such payment, this Trust Agreement shall become void.

If moneys or Defeasance Obligations are deposited with and held by the Trustee as hereinabove provided, the Trustee shall within thirty (30) days after such Defeasance Obligations shall have been deposited with it, mail a notice, first class postage prepaid, to the Owners at the addresses listed on the registration books kept by the Trustee pursuant to Section 2.08, setting forth (a) the date fixed for prepayment of the Certificates, (b) a description of the Defeasance Obligations so held by it, and (c) that this Trust Agreement has been released in accordance with the provisions of this Section.

Notwithstanding anything in this Trust Agreement or the Installment Purchase Agreement, to the contrary, in the event that the principal and/or interest due with respect to the Certificates shall be paid by Insurer pursuant to the Bond Insurance Policy, the Certificates shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the District, and the

assignment and pledge of the Revenues and all covenants, agreements and other obligations of the District to the Owners shall continue to exist and shall run to the benefit of Insurer, and Insurer shall be subrogated to the rights of such Owners. In the event of an advance refunding, the District shall cause to be delivered a verification report of an independent nationally recognized certified public accountant. If a forward supply contract is employed in connection with a refunding, (i) such verification report shall expressly state that the adequacy of the escrow to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement shall provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement, the terms of the escrow agreement or authorizing document, if applicable, shall be controlling.

Section 10.02. Deposit of Money or Securities with Trustee. Whenever in this Trust Agreement or the Installment Purchase Agreement 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 or prepay any Certificates, the money or securities to be so deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to this Trust Agreement and shall be --

(a) lawful money of the United States of America in an amount equal to the principal amount represented by such Certificates and all unpaid interest represented thereby to maturity, except that, in the case of Certificates which are to be prepaid prior to maturity and in respect of which notice of such prepayment shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Prepayment Price and all unpaid interest to such date of prepayment if any, represented by such Certificates; or

(b) non-callable securities described in clause (1) of the definition of Permitted Investments which will provide money sufficient to pay the principal at maturity or upon prepayment plus all accrued interest to maturity or to the prepayment date, as the case may be, represented by the Certificates to be paid or prepaid, as such amounts become due, plus premium, if any, provided that, in the case of Certificates which are to be prepaid prior to the maturity thereof, notice of such prepayment shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of this Trust Agreement and the Installment Purchase Agreement or by Written Request of the District) to apply such money or securities to the payment of such principal or Prepayment Price and interest represented by such Certificates.

Section 10.03. Unclaimed Moneys. Anything contained herein to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of the interest or principal or Prepayment Price represented by any of the Certificates which remain unclaimed for two years after the date of deposit of such moneys if deposited with the Trustee after the date when the interest and principal or Prepayment Price represented by such Certificates have become payable, shall at the Written Request of the District be repaid by the Trustee to the District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of the interest and principal or Prepayment Price represented by such Certificates; provided, however, that before being required to make any such payment to the District, the Trustee shall, at the written request and

expense of the District, first mail a notice to the Owners of the Certificates so payable that such moneys remain unclaimed and that after a date named in such notice, which date shall not be less than thirty (30) days after the date of the mailing of such notice, the balance of such moneys then unclaimed will be returned to the District.

ARTICLE XI

MISCELLANEOUS

Section 11.01. Benefits of Trust Agreement Limited to Parties. Nothing contained herein, expressed or implied, is intended to give to any person other than the District, the Trustee, the Corporation, Insurer so long as the Bond Insurance Policy is in full force and effect and the Owners any claim, remedy or right under or pursuant hereto, and any agreement, condition, covenant or term required herein to be observed or performed by or on behalf of the District shall be for the sole and exclusive benefit of the Trustee, the Corporation, Insurer so long as the Bond Insurance Policy is in full force and effect and the Owners.

Section 11.02. Successor Deemed Included in all References to Predecessor. Whenever either the District, the Corporation or the Trustee or any officer thereof is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the District, the Corporation or the Trustee or such officer, and all agreements, conditions, covenants and terms required hereby to be observed or performed by or on behalf of the District, the Corporation or the Trustee or any officer thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Section 11.03. Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required herein to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or such Owner's attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing 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, or by such other proof as the Trustee may accept which it may deem sufficient.

The ownership of any Certificates and the amount, payment date, number and date of owning the same may be proved by the books required to be kept by the Trustee pursuant to the provisions of Section 2.08.

Any declaration, request or other instrument in writing of the Owner of any Certificate shall bind all future Owners of such Certificate with respect to anything done or suffered to be done by the District or the Trustee in good faith and in accordance therewith.

Section 11.04. Disqualified Certificates. Certificates owned or held by or for the account of the Corporation or the District (but excluding Certificates held in any pension or retirement fund) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates provided for in this Trust Agreement, and shall not be entitled to consent to or take any other action provided for in this Trust Agreement.

The Trustee may adopt appropriate regulations to require each Owner of Certificates, before his consent provided for in this Trust Agreement shall be deemed effective, to reveal if the Certificates as to which such consent is given are disqualified as provided in this Section.

Section 11.05. Waiver of Personal Liability. No director, officer or employee of the District or the Corporation shall be individually or personally liable for the payment of the interest or principal or the prepayment premiums, if any, represented by the Certificates, but nothing contained herein shall relieve any director, officer or employee of the District or Corporation from the performance of any official duty provided by any applicable provisions of law or by the Installment Purchase Agreement or hereby.

Section 11.06. Acquisition of Certificates by District; Destruction of Certificates. All Certificates acquired by the District, whether by purchase or gift or otherwise, shall be surrendered to the Trustee for cancellation. Whenever in this Trust Agreement provision is made for the cancellation by the Trustee of any Certificates, the Trustee shall destroy such Certificates and upon written request deliver a certificate of such destruction to the District.

Section 11.07. Headings. Headings preceding the text of the several Articles and Sections hereof, and the table of contents, are solely for convenience of reference and shall not constitute a part of this Trust Agreement or affect its meaning, construction or effect.

All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Trust Agreement; and the words "herein," "hereof," "hereunder" and other words of similar import refer to this Trust Agreement as a whole and not to any particular Article, Section or subdivision hereof.

Section 11.08. Funds and Accounts. Any fund required by this Trust Agreement 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 shall at all times be maintained in accordance with sound corporate trust industry practices and with due regard for the protection of the security of the Certificates and the rights of every Owner thereof.

Section 11.09. Partial Invalidity. If any one or more of the agreements, conditions, covenants or terms required herein to be observed or performed by or on the part of the District, the Corporation or the Trustee shall be contrary to law, then such agreement or agreements, such condition or conditions, such covenant or covenants or such term or terms shall be null and void and shall be deemed separable from the remaining agreements, conditions, covenants and terms hereof and shall in no way affect the validity hereof or of the Certificates, and the Owners shall retain all the benefit, protection and security afforded to them under any applicable provisions of law. The District, the Corporation and the Trustee hereby declare that they would have executed this Trust Agreement, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof and would have authorized the execution and delivery of the Certificates pursuant hereto irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstances may be held to be unconstitutional, unenforceable or invalid.

Section 11.10. California Law. THIS TRUST AGREEMENT SHALL BE CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE.

Section 11.11. Consent of Insurer. Unless otherwise provided in this Trust Agreement, Insurer's consent shall be required for initiation or approval of any action which requires Owner consent and, while Insurer is not in default, Insurer consent may be obtained in lieu of Owner consent.

Section 11.12. Effect of Actions on Owners. Notwithstanding any other provision of this Trust Agreement, in determining whether the rights of the Owners shall be adversely affected by any action taken pursuant to the terms and provisions of this Trust Agreement, the Trustee shall consider the effect on the Owners as if there were no Bond Insurance Policy.

Section 11.13. Insurer As Third Party Beneficiary. To the extent that this Trust Agreement confers upon or gives or grants to Insurer any right, remedy or claim under or by reason of this Trust Agreement Insurer is explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.

Section 11.14. Insurer to be Deemed Owner: Rights of the Insurer.

(a) Notwithstanding any provision of this Trust Agreement to the contrary, the Insurer shall be deemed the sole Owner of the Outstanding Certificates for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners are entitled to take pursuant to Article V and Article VIII of this Trust Agreement or the Installment Purchase Agreement, and no amendment or supplement to this Trust Agreement or the Installment Purchase Agreement may become effective except upon obtaining the prior written consent of the Insurer; provided, however, that the rights of the Insurer to direct or consent to District, Trustee or Certificate Owner actions under the Installment Purchase Agreement shall be suspended during any period in which the Insurer is in default in its payment obligations under the Bond Insurance Policy (except to the extent of amounts previously paid by the Insurer and due and owing to the Insurer) and shall be of no force or effect in the event the Bond Insurance Policy is no longer in effect or the Insurer asserts that the Bond Insurance Policy is not in effect or the Insurer shall have provided written notice that it waives such rights.

(b) In the event that the principal or interest represented by a Certificate shall be paid by the Insurer pursuant to the terms of the Bond Insurance Policy, such principal and interest shall not be deemed paid for purposes of this Trust Agreement or the Installment Purchase Agreement and shall continue to be due and owing until paid by the District in accordance with the Installment Purchase Agreement and this Trust Agreement, and such Certificate shall (to the extent of such principal and interest) remain Outstanding under this Trust Agreement.

(c) The Insurer shall be included as a party in interest and as a party entitled to (i) notify the District, the Trustee, if any, or any applicable receiver of the occurrence of an event of default and (ii) request the Trustee or receiver to intervene in judicial proceedings that affect the Certificates or the security therefor. The Trustee or receiver shall be required to accept notice of an Event of Default from the Insurer.

Section 11.15. Notice to Rating Agency. The Trustee shall promptly upon execution and delivery mail by first class mail to S&P a copy of each amendment to this Trust Agreement to which the Insurer has previously consented in writing.

Section 11.16. Notices To Be Given To Insurer. So long as the Bond Insurance Policy is in full force and effect, the District or the Trustee, as applicable, shall furnish to Insurer:

(a) Notice of the redemption, other than mandatory sinking fund redemption, of any of the Certificates, or of any advance refunding of the Certificates, including the principal amount, maturities and CUSIP numbers thereof;

(b) Notice of the downgrading by any rating agency of the Issuer's or Obligor's underlying public rating, or the underlying rating on the Certificates or any Contracts or Bonds, to "non-investment grade;"

(c) Notice of any rate covenant violation with respect to the Certificates;

(d) Notice of any material events pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934, as amended; and

(e) Such additional information as Insurer may reasonably request from time to time.

The Trustee or District, as applicable, shall notify Insurer of any failure of the District to provide relevant notices, certificates, or other similar documents.

The Trustee shall notify Insurer of any failure of the District to provide relevant notices, certificates, or other similar documents.

The District will permit Insurer to discuss the affairs, finances and accounts of the District or any information Insurer may reasonably request regarding the security for the Certificates with appropriate officers of the District. The Trustee or the District, as applicable, will permit Insurer to have access to the 2007 Project and have access to and to make copies of all books and records relating to the Certificates at any reasonable time.

Section 11.17. Notices. All written notices to be given under this Trust Agreement to the parties hereto shall be given by mail or personal delivery to the party entitled thereto at its address set forth below, or at such address as the party may provide to the other parties in writing from time to time.

If to the District: Otay Water District
2554 Sweetwater Springs Boulevard
Spring Valley, CA 91977
Attention: General Manager

If to the Corporation: Otay Service Corporation
2554 Sweetwater Springs Boulevard
Spring Valley, CA 91977
Attention: President

If to the Trustee: Union Bank of California, N.A.
120 San Pedro Street, Suite 400
Los Angeles, CA 90012
Attention: Corporate Trust Department

If to the Insurer: _____

Section 11.18. Action Not on Business Day. Except as otherwise specifically provided in this Trust Agreement, if any date specified for the payment of any principal or interest on any Certificate or the performance of any act falls on a day which is not a Business Day, such payment or performance shall be made on the next succeeding Business Day with the same effect as if made on such date. In the case of the payment of the principal of or the interest on any Certificate which shall be due on a day which is not a Business Day, and such payment is made on the next succeeding Business Day, no additional interest shall accrue as a result of such delayed payment.

Section 11.19. Reimbursement of Expenses. The District shall pay or reimburse the Insurer for any and all charges, fees, costs, and expenses that the Insurer may reasonably pay or incur in connection with the following: (i) the administration, enforcement, defense, or preservation of any rights or security hereunder or under the Installment Purchase Agreement; (ii) the pursuit of any remedies hereunder, under the Installment Purchase Agreement, or otherwise afforded by law or equity; (iii) any amendment, waiver, or other action with respect to or related to this Trust Agreement or the Installment Purchase Agreement whether or not executed or completed; (iv) the violation by the District of any law, rule, or regulation or any judgment, order or decree applicable to it; (v) any advances or payments made by the Insurer to cure defaults of the District under this Trust Agreement or the Installment Purchase Agreement; or (vi) any litigation or other dispute in connection with this Trust Agreement, the Installment Purchase Agreement, or the transactions contemplated hereby or thereby, other than amounts resulting from the failure of the Insurer to honor its payment obligations under the Bond Insurance Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver, or consent proposed in respect of this Trust Agreement or the Installment Purchase Agreement. The obligation of the District to the Insurer shall survive discharge and termination of this Trust Agreement.

Section 11.20. Execution in Counterparts. This Trust Agreement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

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

OTAY SERVICE CORPORATION

By: _____
Its: President

ATTEST:

Secretary

OTAY WATER DISTRICT

By: _____
Its: President

ATTEST:

Secretary

UNION BANK OF CALIFORNIA, N.A., as Trustee

By: _____
Its: Authorized Officer

EXHIBIT A

FORM OF CERTIFICATE OF PARTICIPATION

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE SECURITIES DEPOSITORY (AS DEFINED IN THE TRUST AGREEMENT) TO THE TRUSTEE FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE SECURITIES DEPOSITORY (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE SECURITIES 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.

**UNITED STATES OF AMERICA
STATE OF CALIFORNIA
COUNTY OF SAN DIEGO**

**OTAY WATER DISTRICT
REVENUE CERTIFICATE OF PARTICIPATION
(2007 WATER SYSTEM PROJECT)
SERIES 2007**

**Evidencing an Interest of the Owner Hereof
in Installment Payments to be Made by the**

OTAY WATER DISTRICT

<i>INTEREST RATE</i>	<i>CERTIFICATE PAYMENT DATE</i>	<i>ORIGINAL ISSUE DATE</i>	<i>CUSIP</i>
____%	September 1, 20__	_____, 2007	688818 ____

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: _____
AND NO/100 DOLLARS

THIS IS TO CERTIFY that the Registered Owner (specified above) of this Certificate of Participation (herein called the "Certificate") is the owner of an undivided interest in the right to receive certain Installment Payments (as that term is defined in the Trust Agreement hereinafter mentioned) under that certain Installment Purchase Agreement, dated as of _____, 2007 (the "Installment Purchase Agreement"), by and between the Otay Service Corporation (the "Corporation") and the Otay Water District (the "District"). The Installment Payments to be

made thereunder have been assigned to Union Bank of California, N.A., as trustee (the "Trustee"), having a corporate trust office in Los Angeles, California. The Trustee has executed and delivered \$42,000,000* aggregate principal amount of Certificates.

The Registered Owner of this Certificate is entitled to receive, subject to the terms of the Installment Purchase Agreement and the Trust Agreement, on the Certificate Payment Date (specified above) the Principal Amount (specified above) representing a portion of the Installment Payments designated as principal coming due on the Certificate Payment Date, and to receive an interest component on such principal component at the interest rate per annum specified above, from the Interest Payment Date (as hereinafter defined) next preceding the date of execution hereof by the Trustee, unless such date of execution is after a Record Date (as hereinafter defined) and on or before the succeeding Interest Payment Date, in which case interest shall be payable from such Interest Payment Date, or unless such date of execution is on or before the first Record Date, in which case interest shall be payable from Closing Date; provided, however, that if, as shown by the records of the Trustee, interest represented by this Certificate shall be in default, Certificates executed in exchange for this Certificate surrendered for transfer or exchange shall represent interest from the last date to which interest has been paid in full or duly provided for with respect to this Certificate, or, if no interest has been paid or duly provided for with respect to this Certificate, from Closing Date. Interest with respect to this Certificate shall be paid on March 1 and September 1 in each year, commencing September 1, 2007 (each, an "Interest Payment Date"), and continuing to and including the Certificate Payment Date or the date of prior prepayment hereof, whichever is earlier. Interest with respect to this Certificate shall be calculated on the basis of a 360 day year of twelve 30-day months. The principal with respect hereto and prepayment premiums, if any, are payable in lawful money of the United States of America upon presentation and surrender at the principal corporate trust office of the Trustee in Los Angeles, California. Interest with respect hereto is payable by check or draft of the Trustee mailed by first class mail on each Interest Payment Date to the Registered Owner hereof as of the close of business on the fifteenth day of the calendar month prior to such Interest Payment Date (the "Record Date") at the address shown on the registration books maintained by the Trustee or, upon the written request received by the Trustee of an Owner of at least \$1,000,000 in aggregate principal amount of Certificates, by wire transfer of immediately available funds to an account in the United States designated by such Owner prior to the applicable Record Date, except, in each case that, if and to the extent that there shall be a default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the owner in whose name this Certificate is registered at the close of business on a special record date as determined by the Trustee.

The District has certified that all acts, conditions and things required by the Constitution and statutes of the State of California and the Trust Agreement to exist, to have happened and to have been performed precedent to and in the delivery of this Certificate, do exist, have happened and have been performed in due time, form and manner as required by law.

This Certificate has been executed by the Trustee pursuant to the terms of a Trust Agreement, dated as of _____, 2007, by and among the Trustee, the Corporation and the District (the "Trust Agreement"). Copies of the Trust Agreement and the Installment Purchase Agreement are on file at the corporate trust office of the Trustee in Los Angeles, California, and reference is made to the Trust Agreement and the Installment Purchase Agreement and any and all amendments thereto for a description of the pledges and covenants securing the Certificates, the nature, extent and manner

* Preliminary

of enforcement of such pledges, the rights and remedies of the registered owners of the Certificates with respect thereto and the other terms and conditions upon which the Certificates are delivered thereunder.

The Certificates are payable from Installment Payments and other amounts on deposit in certain funds and accounts held under the Trust Agreement, including but not limited to the Reserve Fund, all in accordance therewith. All Taxes and Revenues and all amounts on deposit, respectively, in the Tax Fund and Revenue Fund (as such terms are defined in the Installment Purchase Agreement) are irrevocably pledged to the payment of the Installment Payments and the Taxes and Revenues shall not be used for any other purpose while any of the Installment Payments remain unpaid; provided that out of Taxes and Revenues and amounts on deposit in the Tax Fund and Revenue Fund there may be apportioned such sums for such purposes as are expressly permitted in the Installment Purchase Agreement. Such pledge constitutes a first and exclusive lien on Taxes and Revenues and all amounts on deposit in the Tax Fund and Revenue Fund on a parity with the pledge under the 1996 Installment Sale Agreement and the 2004 Installment Purchase Agreement and, subject to application of amounts on deposit therein as permitted in the Installment Purchase Agreement, the Tax Fund, the Revenue Fund and accounts created under the Installment Purchase Agreement for the payment of the Installment Payments and all other Contracts and Bonds (as such terms are defined in the Installment Purchase Agreement) in accordance with the terms of the Installment Purchase Agreement and the Trust Agreement. The obligation of the District to make Installment Payments is a special obligation of the District payable solely from Taxes and Revenues (as defined in the Installment Purchase Agreement) and other funds described in the Installment Purchase Agreement and does not constitute a debt of the District or the State of California or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

The Certificates are authorized to be executed and delivered in the form of fully registered Certificates in the denomination of \$5,000 each or any integral multiple thereof; provided that no Certificate shall have principal represented thereby maturing in more than one year. Subject to the limitations and conditions and upon payment of the taxes and governmental charges, if any, as provided in the Trust Agreement, Certificates may be exchanged for a like aggregate principal amount of Certificates of the same Certificate Payment Date of other authorized denominations at the principal corporate trust office of the Trustee in Los Angeles, California.

This Certificate is transferable by the Registered Owner hereof, in person or by such person's duly authorized attorney, at said office of the Trustee, but only in the manner, subject to the limitations and upon payment of the taxes and governmental charges provided in the Trust Agreement, and upon surrender of this Certificate for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee. Upon such transfer a new Certificate or Certificates, of the same Certificate Payment Date and of authorized denomination or denominations, for a like aggregate principal amount will be delivered to the transferee in exchange herefor. The Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the Trustee shall not be affected by any notice to the contrary.

The Trustee shall not be required to register the transfer or exchange of any Certificate (i) within 15 days preceding selection of Certificates for prepayment or (ii) selected for prepayment.

The Certificates are subject to mandatory prepayment prior to their respective stated maturities, as a whole, or in part in the order of maturity as directed by the District in a written

request to the Trustee and by lot within each maturity, on any date, in integral multiples of \$5,000, from prepaid Installment Payments made by the District from Net Proceeds (as defined in the Installment Purchase Agreement), upon the terms and conditions of, and as provided for in the Trust Agreement and the Installment Purchase Agreement, at a prepayment price equal to the principal amount thereof plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

The Certificates with stated maturities on or after September 1, 2017, are subject to prepayment prior to their respective stated maturities, as a whole or in part, in the order of maturity as directed by the District in a written request provided to the Trustee and by lot within each maturity, in integral multiples of \$5,000 on any date, on or after September 1, 2016, from optional prepayments of Installment Payments made by the District pursuant to the Installment Purchase Agreement, at a prepayment price equal to the principal amount of such Certificates to be prepaid plus interest accrued to the date fixed for prepayment, without premium.

As provided in the Trust Agreement, notice of prepayment hereof shall be mailed, first class postage prepaid, not less than 30 nor more than 60 days prior to the prepayment date, to the Registered Owner of this Certificate at the address thereof appearing on the Certificate registration books. If this Certificate is called for prepayment and payment is duly provided therefor as specified in the Trust Agreement, interest represented hereby shall cease to accrue from and after the date fixed for prepayment. Any defect in the notice or the mailing will not affect the validity of the prepayment of this Certificate.

With respect to any notice of optional prepayment of Certificates, such notice may state that such prepayment shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such prepayment of moneys sufficient to pay the principal of, premium, if any, and interest with respect to such Certificates to be prepaid and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Trustee shall not be required to prepay such Certificates. In the event that such notice of prepayment contains such a condition and such moneys are not so received, the prepayment shall not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of prepayment was given, that such moneys were not so received.

To the extent and in the manner permitted by the terms of the Trust Agreement and the Installment Purchase Agreement, as the case may be, the Trust Agreement and the rights and obligations of the District and of the registered owners of the Certificates and of the Trustee or the Installment Purchase Agreement and the rights and obligations of the Corporation and the District and the registered owners of the Certificates and the Trustee, respectively, may be modified or amended with the written consents of the registered owners of a majority in aggregate principal amount of the Certificates then outstanding and, so long as the Bond Insurance Policy is in full force and effect, with the written consent of _____ (the "Insurer"), but no such modification or amendment shall (1) extend the stated maturities of the Certificates, or reduce the rate of interest represented thereby, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any premium payable on the prepayment thereof; without the consent of the Registered Owner of each Certificate so affected, or (2) reduce the percentage of Registered Owners of Certificates whose consent is required for the execution of any amendment or modification of the Trust Agreement or the Installment Purchase Agreement, or (3) modify any of the rights or obligations of the Trustee or the Corporation without its written consent thereto.

To the extent and in the manner permitted by the terms of the Trust Agreement and the Installment Purchase Agreement, as the case may be, the Trust Agreement and the rights and obligations of the Corporation and the District and of the registered owners of the Certificates or the Installment Purchase Agreement and the rights and obligations of the Corporation and the District and the registered owners of the Certificates, respectively, may also be modified or amended, without the consent of the registered owners of any Certificates, but only to the extent permitted by law and only for any one or more of the following purposes --

(1) to add to the covenants and agreements of the Corporation or the District contained in the Trust Agreement or the Installment Purchase Agreement other covenants and agreements thereafter to be observed or to surrender any right or power in the Trust Agreement or the Installment Purchase Agreement reserved to or conferred upon the Corporation or the District, and which shall not adversely affect the interests of the registered owners of the Certificates;

(2) to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement or the Installment Purchase Agreement or in regard to questions arising under the Trust Agreement or the Installment Purchase Agreement, as the Corporation or the District may deem necessary or desirable and which shall not adversely affect the interests of the registered owners of the Certificates; and

(3) to make such other amendments or modifications as may be in the best interests of the registered owners of the Certificates.

Any provision of the Trust Agreement or the Installment Purchase Agreement expressly recognizing or granting rights in or to Insurer may not be amended in any manner which affects the rights of Insurer thereunder without the prior written consent of Insurer.

Upon acceleration, the Installment Payments and the Certificates shall become due and payable immediately from the sources described in the Installment Purchase Agreement and the Trust Agreement, respectively.

The Trustee has no obligation or liability to the registered owners of the Certificates for the payment of interest, principal or prepayment premium, if any, with respect to the Certificates out of the Trustee's own funds; the Trustee's sole obligations are those described in the Trust Agreement. The recitals of facts herein shall be taken as statements of the District and the Corporation and the Trustee does not have any responsibility for the accuracy thereof.

IN WITNESS WHEREOF, this Certificate has been executed by the manual signature of an authorized signatory of the Trustee, all as of the date set forth below.

Execution date: _____, 2007

UNION BANK OF CALIFORNIA, N.A.,
as Trustee

By: _____
Its: Authorized Signatory

FORM OF STATEMENT OF INSURANCE

[To Come]

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

(print or typewrite name, address, including postal zip code, and social security
or other identifying number of Transferee)

the within Certificate and all rights thereunder, and hereby irrevocably constitutes and appoints

attorney to transfer the within Certificate on the books kept for registration thereof by the Trustee,
with full power of substitution in the premises.

Dated: _____

Signature Guaranteed

NOTICE: Signature(s) must be guaranteed by
an eligible guarantor institution.

NOTICE: The signature to this assignment must
correspond with the name as it appears upon the
face of the within Certificate in every particular,
without alteration or enlargement or any change
whatsoever.

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INSTALLMENT PURCHASE AGREEMENT

by and between

OTAY WATER DISTRICT

and

OTAY SERVICE CORPORATION

Dated as of _____, 2007

Relating to

\$42,000,000*

**OTAY WATER DISTRICT
REVENUE CERTIFICATES OF PARTICIPATION
(2007 WATER SYSTEM PROJECT), SERIES 2007**

* Preliminary

INSTALLMENT PURCHASE AGREEMENT

This INSTALLMENT PURCHASE AGREEMENT is made and entered into as of _____, 2007, by and between OTAY WATER DISTRICT, a municipal water district duly formed and existing under and by virtue of the laws of the State of California (the "District"), and OTAY SERVICE CORPORATION, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation").

WITNESSETH:

WHEREAS, the District proposes to finance the acquisition and construction of improvements, betterments, renovations, and expansions of certain facilities within its water system, as more particularly described in Exhibit A attached hereto (the "2007 Project");

WHEREAS, the Corporation has agreed to assist the District in financing the acquisition and construction of the 2007 Project;

WHEREAS, the District is authorized by Chapter 4 of Part 5, Division 20 of the Water Code of the State of California, to acquire property for its water system and to construct, improve, expand or repair its water system;

WHEREAS, the Corporation proposes to sell the 2007 Project to the District and the District desires to purchase the 2007 Project from the Corporation upon the terms and conditions set forth herein;

WHEREAS, the District has determined that the purchase of the 2007 Project by the District is necessary and proper for District uses and purposes;

WHEREAS, the District and the Corporation have duly authorized the execution and delivery of this Installment Purchase Agreement;

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

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

ARTICLE I

DEFINITIONS

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

following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein. All capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in the Trust Agreement.

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

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 on a parity with, or subordinate to, the 2007 Installment Payments, the 2004 Installment Payments and the 1996 Installment Payments and which are secured by a pledge of and lien on the Taxes and Revenues.

Business Day. The term "Business Day" means a day which is not (a) a Saturday or Sunday or any other day bank institutions located in New York, New York, or the city or cities in which the principal or other designated corporate office of the Trustee or Insurer is located are required or authorized to close, or (b) a day on which the New York Stock Exchange is closed.

Contracts. The term "Contracts" means this Installment Purchase Agreement and all contracts of the District authorized and executed by the District, the Installment Payments or payments under which are on a parity with, or subordinate to, the 2007 Installment Payments and which are secured by a pledge of and lien on the Taxes and Revenues, including the 2004 Installment Purchase Agreement and the 1996 Installment Sale Agreement.

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.

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

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 redeemed 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 redeemed 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 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, including the 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, including the Certificate Payment Fund;

provided that, as to any such Bonds or Installment Payments 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 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.

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

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

Fiscal Year. The term “Fiscal Year” means the period beginning on July 1 of each year and ending on June 30 of such year, or any other twelve-month period selected and designated as the official Fiscal Year of the District.

Independent Certified Public Accountant. The term “Independent Certified Public Accountant” means any firm of certified public accountants appointed by the District, and each of whom is

independent 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, 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 of the District, but who may be regularly retained to make reports to the District.

Installment Payment Date; 2007 Installment Payment Date. The term “Installment Payment Date” means any date on which Installment Payments are scheduled to be paid by the District under and pursuant to any Contract. The term “2007 Installment Payment Date” means four (4) Business Days prior to September 1 and March 1 of each year, commencing on September 1, 2007.

Installment Payments; 2007 Installment Payments. The term “Installment Payments” means the installment payments of interest and principal scheduled to be paid by the District under and pursuant to the Contracts. The term “2007 Installment Payments” means the Installment Payments scheduled to be paid by the District under and pursuant hereto.

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

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.

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

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.

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

1996 Installment Payments. The term “1996 Installment Payments” means the Installment Payments to be made by the District 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, as amended by the First Amendment to Installment Sale Agreement, dated as of August 1, 2004, each by and between the District and the Corporation.

1993 Installment Sale Agreement. The term “1993 Installment Sale Agreement” means the Installment Sale Agreement, dated as of June 1, 1993, as amended by Amendment No. 1 to Installment Sale Agreement, dated as of March 1, 1994, each by and between the District and the Corporation. The obligation of the District to make Installment Payments under the 1993 Installment Sale Agreement terminated with the refinancing of its obligations thereunder pursuant to the 2004 Installment Purchase Agreement.

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 this Installment Purchase Agreement 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.

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 substantially fixed interest rate obligation of the District for the term of such Bond or Contract.

Project; 2007 Project. The term “Project” means any additions, betterments, extensions or improvements to the Water System or other District facilities designated by the Board of Directors of the District as a Project, the acquisition or construction of which is to be paid for by the proceeds of any Contracts or Bonds. The term “2007 Project” means the acquisitions, repairs, additions, betterments, extensions and improvements to the Water System, including real property and buildings, if any, described in Exhibit A hereto and as modified in conformance with Section 3.01 hereof.

Purchase Price. The term “Purchase Price” means the principal amount plus interest thereon owed by the District to the Corporation under the terms hereof as provided in Section 4.01.

Revenue Fund. The term “Revenue Fund” means the fund established under the 1993 Installment Sale Agreement, continued under the 1996 Installment Sale Agreement and the 2004 Installment Purchase Agreement and continued by the terms of Section 5.02 hereof.

Revenues. The term “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; and (ii) all income, rents, rates, fees, charges and other moneys derived by the District from the ownership or operation of the Water System, or any portion thereof, 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, and (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 hereunder; 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.

2004 Certificates. The term “2004 Certificates” means the \$12,270,000 Otay Water District Revenue Refunding Certificates of Participation (1993 Water Facilities Project), Series 2004 executed and delivered pursuant to the 2004 Installment Purchase Agreement.

2004 Installment Payments. The term “2004 Installment Payments” means the Installment Payments to be made by the District pursuant to the 2004 Installment Purchase Agreement.

2004 Installment Purchase Agreement. The term “2004 Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of July 1, 2004 by and between the District and the Corporation.

2007 Project Fund. The term “2007 Project Fund” means the fund by that name established pursuant to Section 3.05 of the Trust Agreement.

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 established under the 1993 Installment Sale Agreement, continued under the 1996 Installment Sale Agreement and the 2004 Installment Purchase Agreement and continued by the terms of Section 5.02 hereof.

Trust Agreement. The term “Trust Agreement” means the Trust Agreement, dated as of _____, 2007, by and among the District, the Corporation and the Trustee, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

Trustee. The term “Trustee” means Union Bank of California, N.A., acting in its capacity as Trustee under and pursuant to the Trust Agreement, and its successors and assigns.

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.

ARTICLE II

REPRESENTATIONS AND WARRANTIES: OPINIONS OF COUNSEL

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

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

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

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

(d) The District will not take or, to the extent within its power, permit any action to be taken which results in the interest paid for the installment purchase of the 2007 Project under the terms of this Installment Purchase Agreement being included in the gross income of the Corporation or its assigns for purposes of federal or State of California personal income taxation.

(e) The District has determined that it is necessary and proper for District uses and purposes within the terms of the Law that the District finance the 2007 Project in the manner provided for in this Installment Purchase Agreement, in order to provide essential services and facilities to persons residing in the District.

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

(a) The Corporation is a nonprofit public benefit corporation duly organized and in good standing under the laws of the State of California, has full legal right, power and authority to enter into this Installment Purchase Agreement and to carry out and consummate all transactions contemplated by this Installment Purchase Agreement and by proper action has duly authorized the execution and delivery and due performance of this Installment Purchase Agreement.

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

creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the Corporation.

(c) The Corporation will not take or permit any action to be taken which results in interest paid for the installment purchase of the 2007 Project under the terms of this Installment Purchase Agreement being included in the gross income of the Corporation or its assigns for purposes of federal or State of California personal income taxation.

ARTICLE III

CONSTRUCTION, SALE AND PURCHASE OF 2007 PROJECT; 2007 PROJECT FUND

Section 3.01. Sale and Purchase of the 2007 Project. In consideration for the Installment Payments as set forth in Section 4.02, the Corporation agrees to sell, and hereby sells, to the District, and the District agrees to purchase, and hereby purchases, from the Corporation, the 2007 Project at the Purchase Price specified in Section 4.01 and otherwise in the manner and in accordance with the provisions of this Installment Purchase Agreement. In consideration for the Corporation's assistance in financing the 2007 Project through the execution and delivery of this Installment Purchase Agreement, the District agrees to act as the Corporation's agent for purposes of the acquisition, construction and installation of the 2007 Project, as provided in Section 3.02, below.

Section 3.02. Construction of 2007 Project. From the moneys on deposit in the 2007 Project Fund (established and funded under the Trust Agreement) and other moneys available therefor in the Revenue Fund, the District will acquire and construct the 2007 Project with all practicable dispatch, and such acquisition and construction will be made in an expeditious manner and in conformity with the law so as to complete the same as soon as possible.

(a) *Time for Completion.* The District agrees to use best efforts to ensure that the 2007 Project is completed by _____, 20__.

(b) *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 or charge upon the 2007 Project Fund or the Revenue Fund or any part thereof, or upon any funds held by the Trustee, or which might impair the security of the Installment Payments; provided, that nothing herein contained shall require the District to make any such payments so long as the District in good faith shall contest the validity of any such claims and such nonpayment will not materially adversely affect the District's ability to perform its obligations hereunder.

(c) *Changes to 2007 Project.* The District may substitute other improvements for those listed as components of the 2007 Project in Exhibit A if the facilities being constructed in lieu of the ones listed in Exhibit A are determined by the District to be more necessary to the proper functioning of the Water System at the time of said determination; provided that the District shall file a Written Order of the District with the Trustee informing the Trustee of the District's determination.

Section 3.03. Title. All right, title and interest in each element and component of the 2007 Project shall vest in the District immediately upon execution and delivery of this Installment Purchase Agreement or, if later, upon the acquisition of any rights with respect to such element or component. Such vesting shall be automatic and shall require no further action by the District or the

Corporation, but the Corporation agrees to execute and deliver, from time to time, any documents the District deems necessary or desirable to evidence such vesting.

Section 3.04. Deposit of Moneys into 2007 Project Fund. On the Delivery Date, the Corporation shall cause to be transferred to the District, from the proceeds of the sale of the Certificates, all amounts not required to pay premium for insurance, underwriter's fees, counsel fees or other costs related to the execution and delivery of the Certificates.

ARTICLE IV

2007 INSTALLMENT PAYMENTS

Section 4.01. Purchase Price.

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

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

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

Section 4.02. 2007 Installment Payments. The District shall, subject to its rights of prepayment provided in Article VII, pay the Corporation the Purchase Price in installment payments of interest and principal in the amounts and on the 2007 Installment Payment Dates as set forth in Exhibit B hereto.

Each 2007 Installment Payment shall be paid to the Corporation in lawful money of the United States of America. In the event the District fails to make any of the payments required to be made by it under this section, such payment shall continue as an obligation of the District until such amount shall have been fully paid and the District agrees to pay the same with interest accruing thereon at the rate or rates of interest then applicable to the remaining unpaid principal balance of the 2007 Installment Payments if paid in accordance with their terms.

The obligation of the District to make the 2007 Installment Payments is absolute and unconditional, and until such time as the Purchase Price shall have been paid in full (or provision for the payment thereof shall have been made pursuant to Article IX), the District will not discontinue or suspend any 2007 Installment Payment required to be made by it under this section when due, whether or not the Water System or any part thereof is operating or operable or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

ARTICLE V

SECURITY

Section 5.01. Pledge of Taxes and Revenues. All Revenues and Taxes and all amounts on deposit in the Revenue Fund and the Tax Fund are hereby irrevocably pledged to the payment of the 2007 Installment Payments as provided herein and the Revenues and Taxes shall not be used for any other purpose while any of the 2007 Installment Payments remain unpaid; provided that out of the Revenues and Taxes and amounts on deposit in the Revenue Fund 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, all amounts on deposit in the Revenue Fund on a parity with the pledge under the 1996 Installment Sale Agreement, the 2004 Installment Purchase Agreement and any other Contracts or Bonds hereafter issued on a parity herewith, subject to application of amounts on deposit therein as permitted herein, the Revenue Fund, the Tax Fund and the other funds and accounts created hereunder for the payment of the 2007 Installment Payments in accordance with the terms hereof and of the Trust Agreement.

Section 5.02. Allocation of Revenues and Taxes. 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 hereunder and shall be deposited when and as received in separate specials fund designated as the "Revenue Fund" and the "Tax Fund," respectively, which funds were previously established under the 1993 Installment Sale Agreement, continued under the 1996 Installment Sale Agreement and the 2004 Installment Purchase Agreement 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 Installment Payments, Contracts or Bonds remain unpaid. Moneys in the Revenue Fund and Tax Fund shall be used and applied by the District as provided in this Installment Purchase Agreement and as provided in the 1996 Installment Sale Agreement and the 2004 Installment Purchase Agreement while the 1996 Certificates and the 2004 Certificates remain Outstanding.

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 they 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 in the following respective special funds in the following order of priority and all moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes hereinafter authorized in this Section:

(a) Certificate Payment Fund. On or before each 2007 Installment 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 Certificate Payment Fund the 2007 Installment Payment due and payable on that Installment 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 applicable 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 the Contract, resolution or indenture relating thereto.

No deposit need be made in the Certificate Payment Fund as 2007 Installment Payments if the amount in the Certificate Payment Fund is at least equal to the amount of the 2007 Installment Payment due and payable on the next succeeding 2007 Installment Payment Date.

All money in the Certificate Payment Fund shall be used and withdrawn by the Trustee in accordance with the Trust Agreement.

(b) Reserve Fund. On or before each 2007 Installment 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 Trustee for deposit in the Reserve Fund, that sum, if any, necessary to restore the Reserve Fund to an amount equal to the 2007 Reserve Fund Requirement, transfer to the applicable trustee for deposit to such other reserve fund or account for Bonds or Contracts an amount equal to the amount required to be deposited therein, and to transfer to the Insurer any amounts due pursuant to any agreement related to the repayment of draws under the Reserve Policy as prescribed in Section 5.03 of the Trust Agreement.

No transfer of moneys for deposit to the Reserve Fund in connection with the 2007 Installment Payments need be made if the amount contained therein is at least equal to the 2007 Reserve Fund Requirement.

(c) Surplus. Moneys on deposit in the Tax Fund or Revenue Fund not necessary to make any of the payments required above or as required by the 1996 Installment Sale Agreement or the 2004 Installment Purchase Agreement may be expended by the District at any time for any purpose permitted by law.

Section 5.03. Additional Contracts and Bonds. The District may at any time execute any Contract or issue any Bonds, as the case may be, in accordance herewith, provided an Independent Financial Consultant or 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 Policy Costs, if any, to the Insurer), 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 Policy Costs are past due and owing to the Insurer, the Insurer must provide written consent to the issuance of any Bonds or the execution of any Contracts.

Section 5.04. Investments. All moneys held by the District in the Tax Fund and Revenue Fund shall be invested in the manner authorized by the District's financial policies or as otherwise permitted by law. Investment earnings thereon shall remain on deposit in such fund, except as otherwise provided herein.

ARTICLE VI

COVENANTS OF THE DISTRICT

Section 6.01. Compliance with Installment Purchase Agreement and Ancillary Agreements. The District will punctually pay the 2007 Installment Payments in strict conformity with the terms hereof, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and performed by it, and will not terminate the Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the 2007 Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Corporation to observe or perform any agreement, condition, covenant or term contained herein required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected herewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Corporation or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement required to be observed and performed by it, and it is expressly understood and agreed by and among the parties to this Installment Purchase Agreement and the Trust Agreement that, subject to Section 10.06 hereunder, each of the agreements, conditions, covenants and terms contained in each such agreement is an essential and material term of the

purchase of and payment for the 2007 Project by the District pursuant to, and in accordance with, and as authorized under the Law.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms required to be observed and performed by it pursuant to all outstanding Contracts and Bonds as such may from time to time be executed or issued, as the case may be.

Section 6.02. 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, issue evidences of indebtedness or incur other obligations for any lawful purpose 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 (as provided in Section 5.02) provided that such pledge and lien shall be on a parity with, or subordinate in all respects to, the pledge of and lien thereon provided herein.

Section 6.03. Against Sale or Other Disposition of Property. The District will not enter into any agreement or lease which impairs the operation of the Water System or any part thereof necessary to secure adequate Revenues for the payment of the 2007 Installment Payments, or which would otherwise impair the rights of the Corporation hereunder or 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 2007 Installment Payments and if the proceeds of such sale are deposited in the Revenue Fund.

Nothing herein shall restrict the ability of the District to sell any portion of the 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 6.04. Against Competitive Facilities. The District will not, to the extent permitted by law, 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 6.05. Tax Covenants. The District shall comply with the tax covenants set forth in the Trust Agreement.

Section 6.06. 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 6.07. Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Revenues, Taxes or the funds or accounts created hereunder or under the Trust Agreement or on any funds in the hands of the District pledged to pay the 2007 Installment Payments or to the Owners prior or superior

to the lien of the 2007 Installment Payments or which might impair the security of the 2007 Installment Payments.

Section 6.08. Compliance with Contracts. 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 contracts for the use of the Water System and all other contracts affecting or involving the Water System, to the extent that the District is a party thereto.

Section 6.09. Insurance.

(a) The District will procure and maintain or cause to be procured and maintained insurance on the Water System with responsible insurers in such amounts and against such risks (including accident 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 at reasonable rates.

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, then the excess Net Proceeds shall be applied in part to the prepayment of 2007 Installment Payments as provided in Article VII and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal balance of 2007 Installment Payments then bears to the aggregate unpaid principal amount of such Bonds and Contracts. If such Net Proceeds are sufficient to enable the District to retire the entire obligation evidenced hereby prior to the final due date of the 2007 Installment Payments as well as the entire obligations evidenced by 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 thereupon such Net Proceeds shall be applied to the prepayment of 2007 Installment Payments as provided in Article VII and to the retirement of such Bonds and Contracts.

(b) The District will procure and maintain such other insurance which it shall deem advisable or necessary to protect its interests and the interests of the Corporation, 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.

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

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

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

(b) The District will prepare and file with the Corporation or its assignee and, so long as the Bond Insurance Policy is in full force and effect, with Insurer, annually within one hundred eighty (180) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2007) financial statements of the District for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon.

Section 6.11. Protection of Security and Rights of the Corporation. The District will preserve and protect the security hereof and the rights of the Corporation to the 2007 Installment Payments hereunder and will warrant and defend such rights against all claims and demands of all persons.

Section 6.12. Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the 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 6.13. Amount of Rates and Charges. The District shall 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 one hundred twenty-five percent (125%) of the Debt Service (including for purposes of such calculation the obligation of the District to repay Policy Costs, if any, to the Insurer) 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 this section.

Section 6.14. Collection of Rates and Charges. The District will have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates and charges applicable to the Water Service 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 6.15. 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 Corporation and 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 Corporation and 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 in part to the prepayment of 2007 Installment Payments as provided in Article VII and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal balance of 2007 Installment Payments then bears to the aggregate unpaid principal amount of such Bonds and Contracts.

Section 6.16. Further Assurances. The District will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Corporation of the rights and benefits provided to it herein.

Section 6.17. Enforcement of Contracts. So long as any of the Certificates are outstanding, 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 which contracts provide for water to be supplied to the District which consent, revision, amendment or other action will reduce the supply of water thereunder (except as provided therein), unless the Board of Directors of the District determines by resolution that such rescission or amendment would not materially adversely affect the ability of the District to pay 2007 Installment Payments.

Section 6.18. Continuing Disclosure. The District has covenanted and agreed pursuant to the Trust Agreement that it will comply with and carry out all of its obligations under the continuing disclosure certificate to be executed and delivered by the District in connection with the execution and delivery of the Certificates. Notwithstanding any other provision of this Installment Purchase Agreement, failure of the District to comply with the continuing disclosure certificate shall not be considered an Event of Default.

ARTICLE VII

PREPAYMENT OF 2007 INSTALLMENT PAYMENTS

Section 7.01. Prepayment.

(a) The District may or shall, as the case may be, prepay from the Net Proceeds as provided herein the 2007 Installment Payments in whole or in part on any date in the order of payment date as directed by the District at a prepayment price equal to the sum of the principal amount prepaid plus accrued interest thereon to the date of prepayment.

(b) The District shall have the right at any time or from time to time from any available funds to prepay all or any part of the 2007 Installment Payments; provided that any prepayment of a principal component of the 2007 Installment Payments to be applied to the prepayment or defeasance of Certificates shall be in an amount sufficient to provide for such prepayment or defeasance of Certificates in Authorized Denominations and otherwise in accordance with the provisions of the Trust Agreement and Section 9.01 hereof. The Corporation shall accept such prepayments when the same are tendered by the District. With respect to prepayments of Installment Payments pursuant to this Section, the District shall determine which Installment Payments are to be prepaid, including the principal component of the Installment Payment due on each Installment Payment Date to be paid or prepaid with such prepayments, and, subject to the provisions of this Section, the date on which each such prepayment is to be made.

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

Section 7.02. Method of Prepayment. Before making any prepayment pursuant to Section 7.01, the District shall give written notice to the Corporation and the Trustee specifying the date on which the prepayment will be paid, which date shall be not less than sixty (60) nor more than seventy-five (75) days from the date such notice is given.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF THE CORPORATION

Section 8.01. Events of Default and Acceleration of Maturities. If one or more of the following Events of Default shall happen, that is to say --

(1) if default shall be made by the District in the due and punctual payment of any 2007 Installment Payment or any Contract or Bond when and as the same shall become due and payable;

(2) if default shall be made by the District in the performance of any of the other agreements or covenants required herein to be performed by it, and such default shall have continued for a period of sixty (60) days after the District shall have been given notice in writing of such default by the Corporation; or

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

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

then and in each and every such case during the continuance of an Event of Default, the Corporation at the written direction of Insurer so long as the Bond Insurance Policy is in full force and effect shall, and, with the written consent of Insurer so long as the Bond Insurance Policy is in full force and effect may, by notice in writing to the District, declare the entire principal amount of the unpaid 2007 Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained herein to the contrary notwithstanding. This Section, however, is subject to the condition that if at any time after the entire principal amount of the unpaid 2007 Installment Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered the District shall deposit with the Corporation a sum sufficient to pay the unpaid principal amount of the 2007 Installment Payments or the unpaid payment of any other Contract or Bond referred to in clause (1) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the 2007 Installment Payments or such Contract or Bond if paid in accordance with their terms, and the reasonable expenses of the Corporation, and any and all other defaults known to the Corporation (other than in the payment of the entire principal amount of the unpaid 2007 Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Corporation or provision deemed by the Corporation to be adequate shall have been made therefor, then and in every such case the Insurer, so long as the Bond Insurance Policy is in full force and effect, by written notice to the District, or the Corporation, by written notice to the District and with the written consent of Insurer so long as the Bond Insurance Policy is in full force and effect, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Insurer shall have the right to direct an accounting at the District's expense, and the District's failure to comply with such direction within thirty (30) days after receipt of written notice of the direction from Insurer shall be deemed a default under this Installment Purchase Agreement; provided, however, that if compliance cannot occur within such period, then such period shall be extended so long as compliance is begun within such period and diligently pursued, but only if such extension would not materially adversely affect the interests of any Owner of the Certificates.

Section 8.02. Application of Funds Upon Acceleration. Upon the date of the declaration of acceleration as provided in Section 8.01, all Taxes and Revenues thereafter received by the District shall be applied in the following order --

First, to the payment, without preference or priority, and in the event of any insufficiency of such Revenues or Taxes ratably without any discrimination or preference, of the fees, costs and expenses of the Corporation and Trustee, if any, in carrying out the provisions of this article, including reasonable compensation to their respective accountants and counsel;

Second, other than Taxes, to the payment of the Operation and Maintenance Costs; and

Third, to the payment of the entire principal amount of the unpaid 2007 Installment Payments and the unpaid principal amount of all Bonds and Contracts and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable to the 2007 Installment Payments and such Bonds and Contracts if paid in accordance with their respective terms.

Section 8.03. Other Remedies of the Corporation. The Corporation shall at the written direction of Insurer so long as the Bond Insurance Policy is in full force and effect, and shall have the right with the written consent of Insurer so long as the Bond Insurance Policy is in full force and effect --

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

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

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

Notwithstanding anything contained herein, the Corporation shall have no security interest in or mortgage on the 2007 Project, the Water System or other assets of the District and no default hereunder shall result in the loss of the 2007 Project, the Water System, or other assets of the District.

Section 8.04. Non-Waiver. Nothing in this article or in any other provision hereof shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the 2007 Installment Payments to the Corporation at the respective due dates or upon prepayment from the Net Revenues, the Revenue Fund and the other funds herein pledged for such payment, or shall affect or impair the right of the Corporation, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied herein.

A waiver of any default or breach of duty or contract by the Corporation shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract; provided however that so long as the Bond Insurance Policy is in full force and effect, the Corporation shall not waive any default or breach of duty or contract without the written consent of Insurer. No delay or omission by the Corporation to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any

such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Corporation by the Law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Corporation.

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

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

ARTICLE IX

DISCHARGE OF OBLIGATIONS

Section 9.01. Discharge of Obligations. When

(a) all or any portion of the 2007 Installment Payments shall have become due and payable in accordance herewith or a written notice of the District to prepay all or any portion of the 2007 Installment Payments shall have been filed with the Trustee; and

(b) there shall have been deposited with the Trustee at or prior to the 2007 Installment Payment Dates or date (or dates) specified for prepayment, in trust for the benefit of the Corporation or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of the 2007 Installment Payments, sufficient moneys and non-callable Permitted Investments, issued by the United States of America and described in clause (A) of the definition thereof, the principal of and interest on which when due will provide money sufficient to pay all principal, prepayment premium, if any, and interest of such 2007 Installment Payments to their respective 2007 Installment Payment Dates or prepayment date or dates as the case may be; and

(c) provision shall have been made for paying all fees and expenses of the Trustee, then and in that event, if an opinion of bond counsel acceptable to the Trustee is filed with the Trustee to the effect that the actions authorized by and taken pursuant to this Article IX shall not adversely affect the tax exempt status of the interest portion of the 2007 Installment Payments, the right, title and interest of the Corporation herein and the obligations of the District hereunder shall, with respect to all or such portion of the 2007 Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the District to have such moneys and such Permitted Investments applied to the payment of such 2007 Installment Payments).

In such event, upon request of the District the Trustee shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and shall execute and deliver to the District all such instruments as may be necessary or desirable to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a

total discharge and satisfaction, the Trustee shall pay over to the District, after payment of all amounts due the Trustee pursuant to the Trust Agreement, as an overpayment of 2007 Installment Payments, all such moneys or such Permitted Investments held by it pursuant hereto other than such moneys and such Permitted Investments, as are required for the payment or prepayment of the 2007 Installment Payments, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the payment of the 2007 Installment Payments and shall be applied by the Trustee to the payment of the 2007 Installment Payments of the District.

ARTICLE X

MISCELLANEOUS

Section 10.01. Liability Limited. Notwithstanding anything contained herein, the District shall not be required to advance any moneys derived from any source of income other than the Revenues, Taxes, the Revenue Fund, the Tax Fund and the other funds provided herein for the payment of amounts due hereunder or for the performance of any agreements or covenants required to be performed by it contained herein. The District may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the District for such purpose.

The obligation of the District to make the 2007 Installment Payments is a special obligation of the District payable solely from the Taxes, Net Revenues and amounts on deposit in the Revenue Fund and the Tax Fund and does not constitute a debt of the District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

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

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

Section 10.04. Waiver of Personal Liability. No council member, officer or employee of the District shall be individually or personally liable for the payment of the 2007 Installment Payments, but nothing contained herein shall relieve any director, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or hereby.

Section 10.05. Article and Section Headings, Gender and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to "Articles," "Sections" and other subdivisions or clauses are to the corresponding articles, sections,

subdivisions or clauses hereof and the words “hereby,” “herein,” “hereof,” “hereto,” “herewith” and other words of similar import refer to the Installment Purchase Agreement as a whole and not to any particular article, section, subdivision or clause hereof.

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

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

Section 10.08. Net Contract. The Installment Purchase Agreement shall be deemed and construed to be a net contract, and the District shall pay absolutely net during the term hereof of the 2007 Installment Payments and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off whatsoever.

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

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

If to the District: Otay Water District
2554 Sweetwater Springs Boulevard
Spring Valley, CA 91978
Attention: General Manager

If to the Corporation: Otay Service Corporation
2554 Sweetwater Springs Boulevard
Spring Valley, CA 91978
Attention: President

If to the Insurer: _____

Attention: Risk Management

Section 10.11. Effective Date. The Installment Purchase Agreement shall become effective upon its execution and delivery, and shall terminate when the Purchase Price shall have been fully

paid (or provision for the payment thereof shall have been made to the written satisfaction of the Corporation).

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

Section 10.13. Indemnification of Corporation. The District hereby agrees to indemnify and hold harmless the Corporation if and to the extent permitted by law, from and against all claims, advances, damages and losses, including legal fees and expenses, arising out of or in connection with the acceptance or the performance of its duties hereunder, under the Trust Agreement, and the Assignment Agreement; provided that no indemnification will be made for willful misconduct, negligence or breach of an obligation hereunder, under the Trust Agreement or the Assignment Agreement by the Corporation.

Section 10.14. Amendments Permitted.

(a) This Installment Purchase Agreement and the rights and obligations of the Corporation and the District and of the Owners of the Certificates and of the Trustee may be modified or amended at any time by an amendment hereto which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in Section 11.04 of the Trust Agreement and, so long as the Bond Insurance Policy is in full force and effect, the written consent of Insurer shall have been filed with the Trustee. No such modification or amendment shall (1) extend the stated maturities of the Certificates, or reduce the rate of interest represented thereby, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any premium payable on the prepayment thereof, without the consent of the Owner of each Certificate so affected, or (2) reduce the aforesaid percentage of Owners of Certificates whose consent is required for the execution of any amendment or modification of this Installment Purchase Agreement, or (3) modify any of the rights or obligations of the Trustee or the Corporation without its written consent thereto.

(b) This Installment Purchase Agreement and the rights and obligations of the Corporation and the District and of the Owners of the Certificates may also be modified or amended at any time by an amendment hereto which shall become binding upon adoption, without the consent of the Owners of any Certificates, but only to the extent permitted by law and only for any one or more of the following purposes--

(1) to add to the covenants and agreements of the Corporation or the District contained in this Installment Purchase Agreement other covenants and agreements thereafter to be observed or to surrender any right or power herein reserved to or conferred upon the Corporation or the District, and which shall not adversely affect the interests of the Owners of the Certificates;

(2) to cure, correct or supplement any ambiguous or defective provision contained in this Installment Purchase Agreement or in regard to questions arising under this Installment Purchase Agreement, as the Corporation or the District may deem necessary or desirable and which shall not adversely affect the interests of the Owners of the Certificates; and

(3) to make such other amendments or modifications as may be in the best interests of the Owners of the Certificates.

No amendment without consent of the Owners may modify any of the rights or obligations of the Trustee without the written consent thereto.

Any provision of this Installment Purchase Agreement expressly recognizing or granting rights in or to Insurer may not be amended in any manner which affects the rights of Insurer hereunder without the prior written consent of Insurer. The Insurer shall be provided with a full transcript of all proceedings relating to the execution of any amendment or supplement to this Installment Purchase Agreement.

Section 10.15. Consent of Insurer. Unless otherwise provided in this Installment Purchase Agreement, Insurer's consent will be required for initiation or approval of any action which requires Owner consent.

Section 10.16. Notice to Insurer. Any notices required to be given to any party under this Installment Purchase Agreement shall also be given to the Insurer.

Section 10.17. Notice to Rating Agencies. Copies of all amendments to this Installment Purchase Agreement shall be mailed by first class mail to [Standard & Poor's Ratings Services] at least 15 days prior to the effective date of such amendment.

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

OTAY WATER DISTRICT

By: _____
Its: President

ATTEST:

Secretary

OTAY SERVICE CORPORATION

By: _____
Its: President

ATTEST:

Secretary

EXHIBIT A

DESCRIPTION OF 2007 PROJECT

The 2007 Project comprises costs relating to the following described improvements to the District's Water System:

- 640-1 and 640-2 Reservoirs. Design and construction of two potable water reservoirs with a storage capacity of approximately 10 million gallons each, and facilities appurtenant.
- 36-inch pipeline. Design and construction of approximately 25,500 feet of 36-inch pipeline from a facility owned by the San Diego County Water Authority and known as the Otay flow control facility No. 14 (FCF 14) to a facility known as the Regulatory Site, including funding the costs of upgrading FCF 14 to a capacity of 16 million gallons per day.
- 30-inch recycled water pipeline. Design and construction of approximately 28,000 feet of 30-inch pipeline from Dairy Mart Road to a proposed reservoir facility to be known as the 450-1 reservoir, described below.
- 450-1 reservoir. Design and construction of a recycled water reservoir with a storage capacity of approximately 12 million gallons.
- 680-1 pump station. Design and construction of a pump station with capacity to pump approximately 11,500 gallons per minute and a 24-inch discharge transmission pipeline to transmit water from the 450-1 reservoir.
- 1296-3 Reservoir. Design and construction of two million gallon steel reservoir adjacent to the District's existing 1296-1 and 1296-2 reservoirs.
- 850-4 Reservoir. Design and construction of a potable water steel reservoirs with a storage capacity of approximately 2.2 million gallons adjacent to the existing 850-2 reservoir.
- Funding certain costs related to utility relocations of existing facilities of the District required in connection with the construction of Interstate 905.
- 1485-1 Pump Station Replacement. Design and construct a new pump station to replace an existing pump station that has reached the end of its useful life.
- Funding other costs related to facilities required in connection with any of the above listed project.

EXHIBIT B
PURCHASE PRICE

1. The principal amount of payments to be made by the District hereunder is \$_____.

2. The installment payments of principal and interest are payable in the amounts and on the Installment Payment Dates as follows:

<i>Installment Payment Date (4 Business Days Prior to)</i>	<i>Amount Attributable to Principal</i>	<i>Amount Attributable to Interest</i>
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Total	\$_____	\$_____
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ASSIGNMENT AGREEMENT

by and between

OTAY SERVICE CORPORATION

and

**UNION BANK OF CALIFORNIA, N.A.,
as Trustee**

Dated as of _____, 2007

Relating to

\$42,000,000*

**OTAY WATER DISTRICT
REVENUE CERTIFICATES OF PARTICIPATION
(2007 WATER SYSTEM PROJECT)
SERIES 2007**

* Preliminary

ASSIGNMENT AGREEMENT

This Assignment Agreement is made and entered into as of _____, 2007, by and between OTAY SERVICE CORPORATION, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation") and UNION BANK OF CALIFORNIA, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States of America, as trustee (the "Trustee");

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

SECTION 1. Assignment.

The Corporation, for good and valuable consideration in hand received, does hereby sell, assign and transfer to the Trustee, without recourse, for the benefit of the owners of the certificates of participation (the "Certificates"), to be executed and delivered by the Trustee pursuant to the Trust Agreement, dated as of _____, 2007, by and among the Otay Water District (the "District"), the Corporation and the Trustee (the "Trust Agreement"), all of its rights, title, and interest in the Installment Purchase Agreement, dated as of _____, 2007, by and between the District and the Corporation (the "Installment Purchase Agreement"), including the right to receive all installment payments from the District under the Installment Purchase Agreement (but not including the right to be indemnified and the right to receive notices pursuant to the Installment Purchase Agreement), together with any and all of the other rights of the Corporation under the Installment Purchase Agreement as may be necessary to enforce payment of such installment payments when due or otherwise to protect the interests of the owners of the Certificates.

All rights assigned by the Corporation shall be administered by the Trustee as assignee thereof according to the provisions of the Trust Agreement and for the equal and proportionate benefits of the Owners of the Certificates. This assignment is absolute and presently effective.

SECTION 2. Acceptance.

The Trustee hereby accepts the foregoing assignment for the purpose of securing the right assigned to it to receive all such installment payments from the District under the Installment Purchase Agreement and the other rights assigned to it, subject to the terms and provisions of the Trust Agreement, and all such installment payments shall be applied and the rights so assigned shall be exercised by the Trustee as provided in the Trust Agreement.

SECTION 3. Conditions.

This Assignment Agreement shall confer no rights or impose no obligations upon the Trustee beyond those expressly provided in the Trust Agreement. This Assignment Agreement shall constitute a complete assignment by the Corporation of all of its rights and obligations under and pursuant to the Installment Purchase Agreement, except as otherwise provided herein.

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

OTAY SERVICE CORPORATION

By: _____
Its: President

ATTEST:

Secretary

UNION BANK OF CALIFORNIA, N.A., as Trustee

By: _____
Its: Authorized Officer

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of March 1, 2007 (the "Disclosure Agreement") is executed and delivered by the Otay Water District (the "District") and Union Bank of California, N.A. (the "Dissemination Agent") in connection with the execution and delivery of \$ _____ Revenue Certificates of Participation (2007 Water Systems Project), Series 2007 (the "Certificates"). The Certificates are being executed pursuant to a Trust Agreement, dated as of March 1, 2007, by and among the District, Union Bank of California, N.A., as trustee (the "Trustee") and the Otay Service Corporation (the "Corporation"). 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 Certificates 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 Trust Agreement, 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 any Comprehensive Annual Financial 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 Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

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

"Dissemination Agent" shall mean Union Bank of California, N.A., or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

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

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Official Statement" shall mean the Official Statement relating to the Certificates, dated _____, 2007.

"Participating Underwriter" shall mean the original underwriter of the Certificates required to comply with the Rule in connection with the offering of the Certificates.

"Repository" shall mean each National Repository and each State Repository.

“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.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

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 each March 1 of each year commencing March 1, 2008, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. 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 said date, 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 Repositories an Annual Report by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; 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 and listing all the Repositories to which it was provided.

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 3 hereof, updates of Tables 1 through 8 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 each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. 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 to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Modifications to rights of Certificate holders.
- (iv) Optional, contingent or unscheduled Certificate calls.
- (v) Defeasances.
- (vi) Rating changes.
- (vii) Adverse tax opinions or events affecting the tax-exempt status of the interest due with respect to the Certificates.
- (viii) Unscheduled draws on the debt service reserves reflecting financial difficulties.
- (ix) Unscheduled draws on the credit enhancements reflecting financial difficulties.
- (x) Substitution of the credit or liquidity providers or their failure to perform.
- (xi) Release, substitution or sale of property securing repayment of the Certificates.

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

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly file a notice of

such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (v) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Certificates pursuant to the Trust Agreement.

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 Certificates. If such termination occurs prior to the final maturity of the Certificates, 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 Certificates 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 Trust Agreement, 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 Certificate holder 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 their 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 Certificate 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 Certificates.

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 91977 Attention: General Manager
Dissemination Agent:	Union Bank of California, N.A. 120 South San Pedro Street, 4 th Floor Los Angeles, CA 90012 Attention: Corporate Trust

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 Certificates, 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: President

UNION BANK OF CALIFORNIA, N.A., as
Dissemination Agent

By: _____
Its: Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Otay Water District
Name of Certificate Issue: \$_____ Otay Water District Revenue Certificates of Participation (2007 Water Systems Project), Series 2007
Date of Issuance: _____, 2007

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Certificates as required by the Continuing Disclosure Agreement by and between the District and Union Bank of California, N.A., as dissemination agent, dated as of _____, 2007. The District anticipates that the Annual Report will be filed by _____.

Dated: _____ Dissemination Agent

By: _____

cc: Issuer

This Preliminary Official Statement and the information contained herein shall be 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 prior to registration or qualification of the securities laws of such jurisdiction.

DRAFT AS OF FEBRUARY 2, 2007

Attachment G

NEW ISSUE - BOOK-ENTRY ONLY

RATINGS

Standard & Poor's: _____

Fitch: _____

(See "CONCLUDING INFORMATION - Ratings on the Certificates" herein)

In the opinion of Garcia Calderon Ruiz, LLP, San Diego, California, and Sidley Austin LLP, San Francisco, California (collectively, "Co-Special Counsel"), based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the documents pertaining to the Certificates and requirements of the Internal Revenue Code of 1986, as amended, as described herein, the portion of each Installment Payment due under the Installment Purchase Agreement designated as and comprising interest with respect to the Certificates is not includable in the gross income of the owners of the Certificates for federal income tax purposes. In the further opinion of Co-Special Counsel, the portion of each Installment Payment due under the Installment Purchase Agreement designated as and comprising interest with respect to the Certificates is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Such portion of the Installment Payments, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. In the further opinion of Co-Special Counsel, such portion of the Installment Payments is exempt from personal income taxes imposed by the State of California. See "LEGAL MATTERS - Tax Matters" herein.

SAN DIEGO COUNTY

STATE OF CALIFORNIA

\$42,000,000*

**REVENUE CERTIFICATES OF PARTICIPATION
(2007 WATER SYSTEM PROJECT), SERIES 2007**

**Representing Undivided Proportionate Interests
in Installment Payments to be Made by the
OTAY WATER DISTRICT**

Under the Terms of an Installment Purchase Agreement

Dated: Date of Delivery

Due: September 1, as shown on the inside front cover.

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 "CERTIFICATE OWNERS' RISKS" herein for a discussion of special risk factors that should be considered in evaluating the investment quality of the Certificates.

The Revenue Certificates of Participation (2007 Water System Project), Series 2007 (the "Certificates") are payable from Installment Payments to be made by the Otay Water District (the "District") to the Otay Service Corporation (the "Corporation") as payment for certain real property and improvements (the "Project") pursuant to an Installment Purchase Agreement, as described herein and from certain funds held under the Trust Agreement and insurance or condemnation awards. The Certificates are being executed and delivered to provide funds for certain storage and distribution facilities. See "THE FINANCING PLAN" herein. The District is required under the Installment Purchase Agreement to make payments in each fiscal year from Taxes and from Net Revenues of the District's water system (the "Water System") in an amount sufficient to pay the annual principal and interest due with respect to the Certificates, as described herein (see "SOURCES OF PAYMENT FOR THE CERTIFICATES" and "CERTIFICATE OWNERS' RISKS" herein).

Interest due with respect to the Certificates is payable on September 1, 2007, and semiannually thereafter on March 1 and September 1 of each year until maturity or earlier prepayment. The Certificates are subject to optional and mandatory prepayment as more fully described herein (see "THE CERTIFICATES - General Provisions" and "THE CERTIFICATES - Prepayment" herein).

Payment of the principal at the stated maturity of and interest with respect to the Certificates will be guaranteed by a municipal bond insurance policy to be issued by _____, simultaneously with the execution and delivery of the Certificates. See "SOURCES OF PAYMENT FOR THE CERTIFICATES - Bond Insurance" herein.

[LOGO]

The District's obligation to make the Installment Payments is a special obligation of the District payable solely from Taxes and Net Revenues of the Water System. The obligation of the District to make the Installment Payments is an irrevocable obligation of the District payable solely from Taxes and Net Revenues but 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 other than the Taxes. The obligation of the District to make the Installment Payments under the Installment Purchase Agreement does not constitute a debt of the District, the Corporation, the State of California or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

The Certificates are offered, when, as and if executed and delivered, subject to the approval as to the legality of the Installment Purchase Agreement by Garcia Calderon Ruiz, LLP, San Diego, California, and Sidley Austin LLP, San Francisco, California, Co-Special Counsel, and certain other conditions. Certain legal matters will be passed on for the District by Garcia Calderon Ruiz, 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 Certificates, in book-entry form, will be available for delivery through the facilities of The Depository Trust Company in New York, New York on or about March 7, 2007 (see "THE CERTIFICATES - General Provisions - Book-Entry Only System" herein).

The date of the Official Statement is _____, 2007.

* Preliminary, subject to change.

\$42,000,000*
REVENUE CERTIFICATES OF PARTICIPATION
(2007 WATER SYSTEM PROJECT), SERIES 2007
Representing Undivided Proportionate Interests
in Installment Payments to be Made by the
OTAY WATER DISTRICT
Under the Terms of an Installment Purchase Agreement

MATURITY SCHEDULE

(Base CUSIP† 688818)

<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>
2007				
2008				
2009				
2010				
2011				
2012				
2013				
2014				
2015				
2016				
2017				
2018				
2019				
2020				
2021				
2022				
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2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				
2036				

* Preliminary, subject to change.

† CUSIP® A registered trademark of the American Bankers Association. Copyright © 1999-2007 Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. CUSIP® data herein is provided by Standard & Poor's CUSIP® Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP® Service Bureau. CUSIP® numbers are provided for convenience of reference only. Neither the District nor the Underwriter takes any responsibility for the accuracy of such numbers.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the offer and sale of the Certificates 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 Certificates.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the District in any press release and in 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. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption “THE WATER SYSTEM.”

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 Certificates 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, the Financial Advisor or the Underwriter. 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 Certificates by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Involvement of Underwriter. The Underwriter has submitted the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a 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.

Information Subject to Change. The information and expressions of opinions herein are subject to change without notice and neither 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 or any other entity described or referenced herein since the date hereof. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

Stabilization of Prices. In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the Certificates 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 Certificates to certain dealers and others at prices lower than the public offering prices set forth on the inside front cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

THE CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE CERTIFICATES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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

BOARD OF DIRECTORS

Gary D. Croucher, *President - Division 3*
José Lopez, *Vice President - Division 4*
Jaime Bonilla, *Treasurer - Division 2*
Larry Breitfelder, *Division 1*
Mark Robak, *Division 5*

MANAGEMENT TEAM

Mark Watton, *General Manager*
German Alvarez, *Assistant General Manager Finance & Administration*
Manny Magaña, *Assistant General Manager Engineering & Operations*
Joseph R. Beachem, *Chief Financial Officer*
Rom Sarno, Jr., *Chief of Administrative Services*
Geoff Stevens, *Chief Information Officer*
Rod Posada, *Chief of Engineering*
Pedro Porras, *Chief of Water Operations*

PROFESSIONAL SERVICES

Co-Special Counsel

Garcia Calderon Ruiz, LLP
San Diego, California

Sidley Austin LLP
San Francisco, California

Disclosure Counsel

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

General Counsel to the District

Garcia Calderon Ruiz, LLP
San Diego, California

Financial Advisor

Harrell & Company Advisors, LLC
Orange, California

Trustee

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

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OFFICIAL STATEMENT

\$42,000,000*

REVENUE CERTIFICATES OF PARTICIPATION (2007 WATER SYSTEM PROJECT), SERIES 2007

Representing Undivided Proportionate Interests in Installment Payments to be Made by the OTAY WATER DISTRICT

Under the Terms of an Installment Purchase Agreement

This Official Statement which includes the cover page and appendices (the “Official Statement”) is provided to furnish certain information concerning the sale, execution and delivery of Revenue Certificates of Participation (2007 Water System Project), Series 2007 (the “Certificates”), in the aggregate principal amount of \$42,000,000*, representing the undivided proportionate interests of the registered owners thereof in Installment Payments to be made by the Otay Water District, located in San Diego County, California (the “District”), as payment for certain property pursuant to an Installment Purchase Agreement dated as of March 1, 2007 (the “Installment Purchase Agreement”) with the Otay Service Corporation (the “Corporation”).

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 Certificates to potential investors is made only by means of the entire Official Statement and the documents summarized herein. Potential investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision (see “CERTIFICATE OWNERS’ RISKS” herein).

The District

The Otay Water 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, La Mesa, San Diego and Chula Vista. The District currently serves a population of approximately 189,000 and expects the service area to see continued growth in the next ten years (see “OTAY WATER DISTRICT” and “APPENDIX C – ECONOMIC PROFILE FOR THE COUNTY OF SAN DIEGO” herein).

The Corporation

The Corporation was organized pursuant to the Nonprofit Public Benefit Corporation Law of the State of California, being Part 2 of Division 2 of Title 1 of the California Corporations Code. It was formed for the purpose of providing financial assistance to the District by acquiring, constructing, improving and developing certain real and personal property, together with appurtenances and appurtenant work for the use, benefit and enjoyment of the public. The District’s Board of Directors sits as the Corporation’s Board of Directors.

* Preliminary, subject to change.

Security and Sources of Payment

The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of March 1, 2007 (the “Trust Agreement”), by and among the District, the Corporation and Union Bank of California, N.A., Los Angeles, California, as trustee (the “Trustee”). The District will use a portion of the proceeds of the Certificates to provide funds for the construction of water storage and transmission facilities (the “Project”). See “THE FINANCING PLAN - The Project” herein.

The Certificates represent undivided proportionate interests in the Installment Payments (the “Installment Payments”) to be made by the District to the Corporation as the payment for the Project, as described herein, pursuant to a Installment Purchase Agreement, dated as of March 1, 2007, between the Corporation and the District (the “Installment Purchase Agreement”). The Installment Payments are scheduled to be sufficient to pay, when due, the annual principal and interest represented by the Certificates. The Corporation has assigned to the Trustee, for the benefit of the Owners of the Certificates, the right of the Corporation to receive and collect the Installment Payments due from the District to the Corporation under the Installment Purchase Agreement and other amounts payable by the District to the Corporation thereunder pursuant to the Assignment Agreement, dated as of March 1, 2007, by and between the Corporation and the Trustee (the “Assignment Agreement”). For a summary of the Trust Agreement, the Installment Purchase Agreement and the Assignment Agreement see “APPENDIX A - SUMMARY OF THE LEGAL DOCUMENTS” herein. Certain capitalized terms used in this Official Statement and not otherwise defined have the meaning given them in “APPENDIX A.”

The Installment Payments 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 securing the District’s outstanding Variable Rate Demand Certificates of Participation (1996 Capital Projects) (the “1996 Certificates”) and outstanding Revenue Refunding Certificates of Participation (1993 Water Facilities Project), Series 2004 (the “2004 Certificates”).

- “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.
- “Net Revenues” means, for any Fiscal Year, the Revenues for such Fiscal Year less the Operation and Maintenance Costs for such Fiscal Year.
- “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, and (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 Installment Purchase Agreement; 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 Certificates or of the Installment Purchase Agreement 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.

See “THE WATER SYSTEM” and “SOURCES OF PAYMENT FOR THE CERTIFICATES” herein.

The Installment Purchase Agreement is, in the opinion of Special Counsel, a valid and binding obligation of the District enforceable against the District in accordance with its terms, except to the extent enforceability thereof may be limited by bankruptcy, insolvency, moratorium and other similar laws affecting creditors’ rights heretofore or hereinafter enacted and may be subject to the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and to limitations on the exercise of remedies against public agencies in the State (see “CERTIFICATE OWNERS’ RISKS - Limited Recourse on Default” herein).

The obligation of the District to make the Installment Payments is an irrevocable obligation of the District payable solely from Taxes and Net Revenues but 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 other than the Taxes. The obligation of the District to make the Installment Payments under the Installment Purchase Agreement does not constitute a debt of the District, the Corporation, the State of California or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Tax Matters

In the opinion of Garcia Calderon Ruiz, LLP, San Diego, California, and Sidley Austin LLP, San Francisco, California (collectively, “Co-Special Counsel”), based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the documents pertaining to the Certificates and requirements of the Internal Revenue Code of 1986, as amended, as described herein, the portion of each Installment Payment due under the Installment Purchase Agreement designated as and comprising interest with respect to the Certificates is not includable in the gross income of the owners of the Certificates for federal income tax purposes. In the further opinion of Co-Special Counsel, the portion of each Installment Payment due under the Installment Purchase Agreement designated as and comprising interest with respect to the Certificates is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Such portion of the Installment Payments, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation’s alternative minimum tax liability. In the further opinion of Co-Special Counsel, such portion of the Installment Payments is exempt from personal income taxes imposed by the State of California. See “LEGAL MATTERS – Tax Matters” herein.

Professional Services

The legal proceedings relating to the execution and delivery of the Certificates are subject to the approving opinion of Garcia Calderon Ruiz, LLP, San Diego, California, and Sidley Austin LLP, San Francisco, California, Co-Special Counsel. Certain legal matters will be passed on for the District by Garcia Calderon Ruiz, LLP, as General Counsel for the District, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel.

Union Bank of California, N.A., Los Angeles, California, serves as Trustee under the Trust Agreement. The Trustee will act on behalf of the Certificate Owners for the purpose of receiving all moneys required to be paid to the Trustee, to allocate, use and apply the same, to hold, receive and disburse the Installment Payments and other funds held under the Trust Agreement, and otherwise to hold all the offices and perform all the functions and duties provided in the Trust Agreement to be held and performed by the Trustee.

Harrell & Company Advisors, LLC (the "Financial Advisor") has advised the District as to the financial structure and certain other financial matters relating to the Certificates.

Fees payable to Co-Special Counsel, Disclosure Counsel and the Financial Advisor are contingent upon the sale and delivery of the Certificates.

The District's financial statements for the fiscal year ended June 30, 2006, attached hereto as "APPENDIX B" have been audited by Teaman, Ramirez & Smith, Inc., Certified Public Accountants, Riverside, California. The District's audited financial statements are public documents and are included within this Official Statement without the prior approval of the auditor.

Offering of the Certificates

Authority for Execution and Delivery. The Certificates are to be executed and delivered pursuant to the Trust Agreement, authorized by Resolution No. ____ of the District adopted on February 7, 2007.

Offering and Delivery of the Certificates. The Certificates were awarded to _____ (the "Underwriter") on February 21, 2007 pursuant to the terms of a competitive sale. The Certificates are offered, when, as and if executed and delivered, subject to the approval as to their legality by Co-Special Counsel. It is anticipated that the Certificates, in book-entry form, will be available for delivery in New York, New York on or about March 7, 2007 through the facilities of The Depository Trust Company.

Information Concerning this Official Statement

This Official Statement speaks only as of its date. The information set forth herein has been obtained by the District with the assistance of the Financial Advisor from sources which are believed to be accurate and complete, but such information is not guaranteed as to accuracy or completeness, nor has it been independently verified and is not to be construed as a representation by the Financial Advisor, Disclosure Counsel or the Underwriter. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended as such and are not to be construed as representations of fact.

Preliminary Official Statement Deemed Final. The information set forth herein is in a form deemed final, as of its date, by the District for the purpose of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (except for the omission of certain information permitted to be omitted under the Rule). The information herein is subject to revision, amendment and completion in a Final Official Statement. The information and expressions of opinion herein are subject to change without notice and the delivery of this Official Statement shall not, under any circumstances, create any implication that there has been no change in the information or opinions set forth herein or in the affairs of the District since the date hereof.

Availability of Legal Documents. The summaries and references contained herein with respect to the Trust Agreement, the Installment Purchase Agreement, the Assignment Agreement, the Certificates 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 Certificates are qualified in their entirety by reference to the form thereof included in the Trust Agreement. Definitions of certain terms used herein are set forth in APPENDIX A hereto. Copies of the documents described herein are available for inspection during the period of initial offering of the Certificates at the offices of the Financial Advisor. Copies of these documents may be obtained after delivery of the Certificates at the corporate trust office of the Trustee, Union Bank of California, N.A., Los Angeles, California or from the District, 2554 Sweetwater Springs Blvd., Spring Valley, California 91978.

THE CERTIFICATES

General Provisions

Payment of the Certificates. The Certificates will be executed and delivered in the form of fully registered Certificates in the principal amount of \$5,000 each or any integral multiple thereof. Interest represented by the Certificates is payable at the rates per annum set forth on the inside front cover page hereof, on September 1, 2007 and semiannually on March 1 and September 1 of each year to and including as to each Certificate the date of maturity or prepayment, whichever is earlier (each, a "Payment Date"). Said interest will represent the portion of Installment Payments designated as interest and coming due on each Payment Date. The proportionate share of the portion of Installment Payments designated as interest with respect to any Certificate will be computed by multiplying the portion of Installment Payments designated as principal with respect to such Certificates by the rate of interest applicable to such Certificates. Interest represented by the Certificates and the Installment Payments will be computed on the basis of a year consisting of 360 days and twelve 30-day months. Principal with respect to the Certificates is payable from the principal component of Installment Payments allocable to the Certificates on September 1 in each of the years and in the amounts set forth on the inside front cover page hereof.

The principal and Prepayment Price (as defined herein) with respect to all Certificates will be payable in lawful money of the United States of America upon presentation and surrender thereof at the corporate trust office of the Trustee. Interest with respect to Certificates shall be payable from the Payment Date next preceding their date of execution, unless such date shall be after a Record Date (see "APPENDIX A – SUMMARY OF THE LEGAL DOCUMENTS – DEFINED TERMS" herein) and on or before the succeeding Payment Date, in which case interest shall be payable from such Payment Date or unless such date shall be on or before August 15, 2007, in which case interest shall be payable from the Closing Date, provided, however, that if, as shown by the records of the Trustee, interest represented by the Certificates shall be in default, Certificates executed in exchange for Certificates surrendered for transfer or exchange shall represent interest from the last date to which interest has been paid in full or duly provided for with respect to the Certificates, or, if no interest has been paid or duly provided for with respect to the Certificates, from the Closing Date. Payment of interest with respect to any Certificate shall be made to the person appearing on the registration books of the Trustee as the Owner thereof in lawful money of the United States by check or draft of the Trustee mailed on the Interest Payment Date by first class mail to such Owner at his address as it appears on such registration books, or at such other address as he may have filed with the Trustee for that purpose, as of the close of business on the applicable Record Date, or by wire transfer made on a Payment Date to an account in the United States upon written instructions of any Owner of \$1,000,000 or more in aggregate principal amount of Certificates designated by such Owner prior to the applicable Record Date. Such written notice shall remain in effect until changed by subsequent written notice by Owners who have requested wire transfer.

Book-Entry Only System. The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Certificates. The Certificates 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 with respect to the Certificates will be payable when due by wire of the Trustee to DTC which will in turn remit such interest and principal to DTC Participants (as defined herein), which is obligated in turn remit such interest and principal to Beneficial Owners (as defined herein) of the Certificates (see “APPENDIX G - BOOK-ENTRY ONLY SYSTEM” herein). As long as DTC is the registered owner of the Certificates and DTC’s book-entry method is used for the Certificates, the Trustee will send any notices to Certificate owners only to DTC.

Discontinuance of Book-Entry Only System. DTC may discontinue providing its services as securities depository with respect to the Certificates 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, Certificates are required to be printed and delivered as described in the Trust Agreement. 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 Certificates will be printed and delivered as described in the Trust Agreement.

Transfer or Exchange of Certificates. Any Certificate may, in accordance with its terms, be transferred or exchanged, pursuant to the provisions of the Trust Agreement, upon surrender of such Certificate for cancellation at the principal corporate trust office of the Trustee. Whenever any Certificate or Certificates shall be surrendered for transfer or exchange, the Trustee shall execute and deliver a new Certificate or Certificates for an aggregate principal amount of Certificates of authorized denominations of the same maturity. The Trustee may require the payment by the Certificate Owner requesting such transfer or exchange of any tax or other governmental charge required to be paid with respect to such transfer or exchange. The Trustee is not required to transfer or exchange any Certificates (i) within 15 days preceding selection of Certificates for prepayment or (ii) selected for prepayment.

Prepayment

Optional Prepayment. The Certificates maturing on or after September 1, 2017 are subject to prepayment prior to maturity as a whole or in part in the order of maturity as directed by the District in a Written Request provided to the Trustee and by lot within each maturity in integral multiples of \$5,000 on any date on or after September 1, 2016, from the proceeds of optional prepayments of Installment Payments made by the District pursuant to the Installment Purchase Agreement at a prepayment price equal to the principal amount thereof to be prepaid plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

Prepayment From Net Proceeds of Insurance or Condemnation. The Certificates are subject to mandatory prepayment prior to their respective stated maturities, as a whole or in part in the order of maturity as directed by the District in a Written Request provided to the Trustee and by lot within each maturity, on any date, in integral multiples of \$5,000 from prepaid Installment Payments made by the District from Net Proceeds of casualty insurance or condemnation award, upon the terms and conditions of, and as provided for in the Trust Agreement, and the Installment Purchase Agreement, at a prepayment price equal to the principal amount of the Certificates to be prepaid plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium. There can be no assurance that such proceeds will be adequate to prepay all of the Certificates (see “SOURCES OF PAYMENT FOR THE CERTIFICATES – Property Insurance” herein).

Notice of Prepayment. When prepayment is authorized or required, the notice is required to be mailed, first class postage prepaid, to the respective Owners of any Certificates designated for prepayment at their addresses appearing on the Certificate registration books and to the Information Services and by registered or certified or overnight mail to the Securities Depositories at least 30 days but not more than 60 days prior to the prepayment date. With respect to any notice of optional prepayment of Certificates, such notice may state that such prepayment shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such prepayment of moneys sufficient to pay the principal of, premium, if any, and interest with respect to such Certificates to be prepaid and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Trustee shall not be required to prepay such Certificates. In the event that such notice of prepayment contains such a condition and such moneys are not so received, the prepayment shall not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of prepayment was given, that such moneys were not so received. Neither failure to receive such notice nor any defect in the notice so mailed will affect the validity of the proceedings for prepayment of such Certificates or the cessation of accrual of interest from and after the prepayment date.

Effect of Prepayment. When notice of prepayment has been duly given, and moneys for payment of the Prepayment Price of, together with interest accrued to the prepayment date with respect to, the Certificates (or portions thereof) so called for prepayment are held by the Trustee, the Certificates (or portions thereof) so called for prepayment shall, on the prepayment date designated in such notice, become due and payable at the Prepayment Price specified in such notice and interest accrued thereon to the prepayment date; and from and after the prepayment date interest represented by the Certificates so called for prepayment shall cease to accrue, said Certificates (or portions thereof) shall cease to be entitled to any benefit or security under this Agreement, and the Owners of said Certificates shall have no rights in respect thereof except to receive payment of said Prepayment Price and accrued interest.

Partial Prepayment. Upon surrender of any Certificate prepaid in part only, the Trustee shall execute and deliver to the Owner thereof, at the expense of the District, a new Certificate or Certificates of authorized denominations equal in aggregate principal amount to the unprepaid portion of the Certificate surrendered and of the same interest rate and maturity.

Scheduled Debt Service on the Certificates

The following is the scheduled Annual Debt Service on the Certificates.

<u>Payment Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
September 1, 2007			
September 1, 2008			
September 1, 2009			
September 1, 2010			
September 1, 2011			
September 1, 2012			
September 1, 2013			
September 1, 2014			
September 1, 2015			
September 1, 2016			
September 1, 2017			
September 1, 2018			
September 1, 2019			
September 1, 2020			
September 1, 2021			
September 1, 2022			
September 1, 2023			
September 1, 2024			
September 1, 2025			
September 1, 2026			
September 1, 2027			
September 1, 2028			
September 1, 2029			
September 1, 2030			
September 1, 2031			
September 1, 2032			
September 1, 2033			
September 1, 2034			
September 1, 2035			
September 1, 2036			
Total			

THE FINANCING PLAN

The Project

The 2007 Project comprises the following improvements to the District's Water System:

640-1 and 640-2 Reservoirs. This project consists of two pre-stressed concrete 10 million gallon reservoirs. One will provide operational storage for ultimate projected demand conditions for the planned La Presa System 640 Pressure Zone. The other 10 million gallon reservoir will provide emergency storage for the North District Systems (see "THE WATER SYSTEM – Existing Facilities" herein). The budgeted cost of the reservoirs, including associated pipelines, and facilities design is \$29 million, the construction contract has been awarded and construction commenced in January 2007.

Pipeline Project. This project consists of approximately 25,000 feet of 36-inch pipeline from the San Diego County Water Authority's FCF No. 14 to the Regulatory Site. Under an agreement with San Diego County Water Authority, the pipeline is required to be constructed by the District by March 1, 2010. The total cost is estimated at \$28.8 million, of which San Diego County Water Authority will provide approximately \$4.2 million. The planning is underway, and design work on the pipeline began in November of 2006, with construction to commence in March 2008.

Additional Capital Projects. In addition to the 640-1 and 640-2 reservoirs and the 36" pipeline project, the District has approximately 20 additional capital projects that it may include in the 2007 Project. Such additional projects include 12", 16", 20" and 30" pipeline projects, other reservoir and pump station projects as well as utility relocations.

Estimated Use of Funds

Under the provisions of the Trust Agreement, the Trustee will receive the proceeds from the sale of the Certificates of \$ _____ (representing the par amount of the Certificates less a net original issue discount of \$ _____) and will apply them as follows:

2007 Project Fund
Underwriter's Discount
Costs of Issuance Fund ⁽¹⁾
Total

⁽¹⁾ Expenses include fees of Co-Special Counsel, the Financial Advisor, Disclosure Counsel, the Trustee, bond insurance premium, surety premium, rating fees, costs of printing the Official Statement, and other costs of delivery of the Certificates.

OTAY WATER DISTRICT

The District was formed in January 1956 pursuant to Section 7100 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 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, La Mesa, San Diego and Chula Vista ("Service Area"). While the District is currently providing water service to about 39 percent of its geographic Service Area, this percentage will continue to increase as the District's Service Area continues to develop and grow. The District's growth rate between 2001 and 2006 averaged approximately 4.2% percent per year. As of June 30, 2006, the District had nearly 47,000 potable and 600 recycled service accounts representing a population of approximately 189,000. Ultimately, the District is projected to serve 277,000 people, creating an average daily demand of 56.3 million gallons per day (mgd).

Most potable water delivered by the District is purchased from the San Diego County Water Authority ("SDCWA") who in turn purchases water from the region's water importer, the Metropolitan Water District of Southern California. A smaller amount of potable water is also purchased from the City of San Diego. In Fiscal Year 2007, the District began purchasing raw water from the SDCWA and entered into an agreement with the City of San Diego to treat the water to potable level before being introduced to the District's Water System. By taking raw water through SDCWA's system at a different connection, there is increased reliability of water supplied to the District. A 6-mile, 36" pipeline project currently in the design stage will, when complete, add another connection to the Helix Water District's system, where the District expects to establish an additional delivery point for treated water.

The District owns and operates a recycled water distribution network, which includes a treatment facility. Recycled water from the District's Ralph W. Chapman Water Recycling Facility ("RWCWRF") is used to irrigate golf courses, landscaping at schools, public parks, roadway landscapes, and various other approved uses in eastern Chula Vista. The RWCWRF project is cable of reclaiming wastewater at a rate of 1.3 million gallons per day. The District is also in a partnership with the City of San Diego to beneficially reuse an additional six million gallons per day of recycled water from the City's South Bay Reclamation Plant beginning in March 2007, which required the District to construct over 6 miles of connecting pipeline, a pump station and a 12 million gallon reservoir. Using this new resource to meet specific demands of the Water System will result in the District reducing its potable water use by approximately 15%, maximizing the beneficial use of an alternative resource, which also makes millions of gallons per day of potable water available for municipal and industrial consumption.

The District also owns and operates a wastewater collection and reclamation system, providing public sewer service to approximately 5,000 homes and businesses within the Jamacha drainage basin. This wastewater system is not a part of the Water System.

The District is administered by a Board of Directors consisting of five members who are elected for 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 current members of the Board and key administrative personnel are:

DIRECTORS

Gary D. Croucher, *President - Division 3*
José Lopez, *Vice President - Division 4*
Jaime Bonilla, *Treasurer - Division 2*
Larry Breitfelder, *Division 1*
Mark Robak, *Division 5*

MANAGEMENT TEAM

Mark Watton, *General Manager*
German Alvarez, *Assistant General Manager Finance & Administration*
Manny Magaña, *Assistant General Manager Engineering & Operations*
Joseph R. Beachem, *Chief Financial Officer*
Rom Sarno, Jr., *Chief of Administrative Services*
Geoff Stevens, *Chief Information Officer*
Rod Posada, *Chief of Engineering*
Pedro Porras, *Chief of Water Operations*

Under direction of the General Manager, the District has 175 employees.

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, 2006 are attached hereto as "APPENDIX B" and should be read in their entirety.

Existing Facilities

The principal facilities of the existing Water System consist of six connections to the SDCWA aqueducts, six connections with the Helix Water District, four connection with the City of San Diego, one connection with Sweetwater Authority, 27 pump stations, over 660 miles of mains and 37 operational storage reservoirs in service. The District will commence construction on two additional reservoirs in the near future, which will add another 20 million gallons of storage.

The District currently receives treated water from the SDCWA through multiple connections to two supply pipelines, owned and operated by the SDCWA. In Fiscal Year 2007, the District entered into an agreement with the City of San Diego to treat raw water from SDCWA to potable level before being introduced to the District's Water System, adding another connection. These connections serve major pumping stations and terminal storage reservoirs within the District Service Area. The 6-mile, 36" pipeline project (see "THE FINANCING PLAN – The Project") will provide a connection with the Helix Water District and allow for the additional delivery of treated water.

The District is divided into five systems, based on the supply connections which serve the system. 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," the Central Area, and Otay Mesa systems are collectively referred to as the "South District." There are multiple pressure zones within each system, except Otay Mesa.

North District. The Hillsdale system includes the extreme north part of the District’s Service Area. The Regulatory system is located between the Hillsdale and La Presa systems. The Regulatory system reservoirs are considered to provide terminal storage for the entire North District as well as some operational storage for the 520 Pressure Zone. The 20 million gallon reservoir project (see “THE FINANCING PLAN – The Project”) is located within the Regulatory system and will provide storage for the treated water to be delivered through the new 36” inch pipeline to be connected to the Helix Water District system. The La Presa system is generally located north and east of the Sweetwater reservoir and is the southernmost system of the 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. Two Central Area system reservoirs provide terminal storage for the entire Central Area system and also provide operational storage for the 624 Pressure Zone. Additional reservoirs provide operational storage for other pressure zones throughout the Central Area. 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 Mexico border on the south. The South District has and will experience the most growth in the District’s Service Area.

<u>System</u>	<u>Reservoirs</u>	<u>Capacity (mg)</u>
Hillsdale	6	13.9
Regulatory	12	38.4
La Presa	6	10.5
Central Area	11	85.6
Otay Mesa	<u>2</u>	<u>47.7</u>
	37	196.1

The 2007 Project will provide 20 million gallons capacity in the North District upon completion.

Water Supply

Service Area Water Supply - Potable. The District does not have a local source of ground or surface water, but purchases substantially all of its potable water from the SDCWA. Under a contractual arrangement with the SDCWA, the District also receives potable water from the Helix Water District’s Levy Water Treatment Plant and, beginning in Fiscal Year 2007, from the City of San Diego.

Service Area Water Supply - Recycled. The District produces approximately 1.2 million gallons a day of reclaimed water from its water reclamation plant. The District has contracted with the City of San Diego to purchase up to 6 million gallons per day (mgd) of reclaimed water produced by the City’s South Bay Water Reclamation Plant and an additional 3.5 mgd if available. Construction on the required pump station, reservoir, and the 6-mile delivery system allowing the District to connect to the City’s pipeline will be complete in March 2007. This contract with the City of San Diego will result in the District reducing its potable water use by approximately 15%, allowing over 3,000 acre-feet of potable water to be used for higher quality purposes.

SDCWA Water Supply. Currently, approximately 85% of the SDCWA’s water supply is purchased from the Metropolitan Water District of Southern California (“MWD”). For the fiscal year ended June 30, 2006, the SDCWA supplied the District 41,258 acre-feet of water (quantities of water are expressed in terms of acre-feet which is the amount of water which will cover one acre to a depth of one foot and is equivalent to approximately 326,000 gallons and approximately the average annual water usage of two households).

SDCWA is actively planning methods for diversifying its water supply. In November 2005, SDCWA released its 2005 Urban Water Management Plan to demonstrate the regional mix of existing and projected local and imported water supplies necessary to reliably meet future demand over the next 25 years. In October 2003, the Authority entered into the Quantification Settlement Agreement (the "Agreement") with the Imperial Irrigation District ("IID"). Subject to the terms and conditions of the Agreement, the IID may undertake and agree to contract with landowners to undertake water conservation efforts and divert less Colorado River water by an amount equal to the conserved water created. The transfer occurs by the IID leaving water in the Colorado River in the amount of conserved water created for the SDCWA to divert and deliver to its service area. The SDCWA pays the IID for the quantity of water so transferred. Calendar Year 2006 was the fourth year of implementation, with 40,000 acre-feet of water to be transferred to SDCWA. SDCWA received 10,000 acre-feet in Calendar Year 2003, and 20,000 acre-feet in Calendar Year 2004 and 30,000 acre-feet in 2005. The transfer ramps up to its annual maximum transfer amount of 200,000 acre-feet in 2021. Also included in the Agreement is the concrete lining of the All-American and Coachella canals, a project to conserve water lost due to seepage from the earthen canals in Imperial Valley. SDCWA will receive 77,700 acre-feet of water annually for 110 years from the lining projects.

Lining the Coachella Canal began in November 2004 and is expected to be completed in 2007. Once complete, the project will conserve 26,000 acre-feet of water annually. The All-American Canal Lining Project began in July 2006, and is scheduled for completion in late 2008 and will save 67,700 acre-feet of water annually. By 2020, SDCWA anticipates the canal lining transfer will comprise nine percent of its water supply portfolio. SDCWA is also participating in the CALFED Bay-Delta Program for the improvement of the way water flows through the Bay-Delta (where the San Joaquin and Sacramento rivers meet and flow west to the San Francisco Bay). SDCWA receives water from the Bay-Delta through the State Water Project. SDCWA is also pursuing saltwater desalinization alternatives.

The SDCWA 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 SDCWA is included in certain disclosure documents prepared by SDCWA. The SDCWA has entered into certain continuing disclosure agreements pursuant to which SDCWA 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 Exchange Act ("Rule 15c2-12") and annual audited financial statements (the "SDCWA Information") with certain information repositories approved by the Securities and Exchange Commission.

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

MWD Water Supply. The SDCWA currently purchases all of its imported water from MWD and IID. SDCWA is MWD's largest member agency, purchasing up to 30 percent of MWD's supplies annually. MWD's principal sources of water consist of Colorado River water delivery contracts and deliveries from the State Water Project.

In November 2005, MWD released its 2005 Regional Urban Water Management Plan. The report demonstrates MWD's ability to meet projected demands over the next 20 years and provide additional resource reserves as a "margin-of-safety" that mitigates against uncertainties in demand projections and risks in implementing supply programs. It is also a planning tool for local and retail agencies providing local water supplies.

MWD faces various challenges in the continued supply of imported water to SDCWA 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 certain information repositories approved by the Securities and Exchange Commission.

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 CERTIFICATES UNDER RULE 15c2-12.

Historic and Projected Water Supply. Set forth below is a summary of the District’s sources of water supply for the last five Fiscal Years.

HISTORIC WATER SUPPLY IN ACRE-FEET PER YEAR

Fiscal Year Ending June 30	Produced Reclaimed Water	Purchased Potable Water	Total
2002	1,083	35,579	36,662
2003	1,117	34,539	35,656
2004	1,305	38,918	40,223
2005 ⁽¹⁾	1,150	37,670	38,820
2006	1,234	41,258	42,492

⁽¹⁾ Rainfall in 2005 was significantly above average, resulting in decreased purchases of potable water and production of reclaimed water.

Source: Otay Water District.

Set forth below is a summary of the District’s projection of water sources for the current and five succeeding Fiscal Years reflecting the projected purchase of reclaimed water from the City of San Diego commencing in Fiscal Year 2007 and a corresponding reduction in the purchase of potable water resulting from the availability of the additional reclaimed water.

PROJECTED WATER SUPPLY IN ACRE-FEET PER YEAR

Fiscal Year Ending June 30	Produced Reclaimed Water	Purchased Reclaimed Water	Purchased Potable Water⁽¹⁾	Total
2007	1,064	842 ⁽²⁾	41,455	43,362
2008	1,064	3,604	39,749	44,418
2009	1,064	3,768	41,089	45,921
2010	1,064	3,881	42,333	47,278
2011	1,064	4,028	43,450	48,542
2012	1,064	4,248	45,053	50,366

(1) Purchases from SDCWA and the City of San Diego.

(2) Assumes completion of necessary transmission facilities in March 2007.

Source: Otay Water District.

Capital Improvement Program

The District boundaries encompass areas of San Diego County that are rapidly growing. The District currently serves a population of approximately 189,000. Ultimately, the District is projected to serve 277,000 people and it estimates an additional \$530 million investment in capital assets will be required through ultimate buildout, over 20 years.

The District has developed a six-year Capital Improvement Program (the “CIP”) based on future water demands in its service area. The District reviews and updates the CIP at least 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. Major capital improvements within the next six years are planned in order to provide facilities to deliver water to new customers and to acquire additional water and recycled water capacity. These facilities are categorized by the District into those improvements relating to the Water System (which includes reclaimed water) and the sewer system. Within each segregated operational area, the CIP is further separated into improvement categories – Expansion, Betterment and Replacement.

The table below summarizes the current six-year \$219 million Capital Improvement Program for the Water System and the categories of work to be completed.

	Fiscal Year Ending June 30						Total
	2007	2008	2009	2010	2011	2012	
	(\$000's)						
Expansion	\$24,083	\$19,301	\$26,668	\$24,857	\$41,679	\$26,087	\$162,674
Betterment	2,882	8,037	7,212	4,697	1,186	2,592	26,605
Replacement	<u>7,577</u>	<u>5,382</u>	<u>3,542</u>	<u>3,104</u>	<u>2,732</u>	<u>7,523</u>	<u>29,859</u>
Total	\$34,542	\$32,720	\$37,422	\$32,657	\$45,596	\$36,201	\$219,138

The District completed a Financing Plan which identified the timing and method of funding the capital improvements over the next six years. Each category of improvements is designed to be funded with operational net cashflow, bond proceeds, transfers between operational areas, other capital related charges, reserves or a combination of these sources. Pursuant to the Financing Plan, the District expects to fund these improvements with reserves, operating income, investment income, capacity fees and other fees, grants and additional financing. The District expects that the additional financing may occur in 2009 and 2011. In order to implement the Financing Plan, the District anticipates that it will need to increase its rates as described herein (see "Water Charges" below). However, there is no guarantee that the District will implement such rate increases at the amount and at the time anticipated in the Financing Plan.

Water Service

Historical Water Use. Table No. 1 shows the amount of water usage, connections and revenue generated from water and reclaimed water sales in the last five Fiscal Years, with estimates for 2006/07. There have been over 8,000 new residential connections between 2001 and 2006, an average increase of 4.2% annually. Population has increased over 32% during this six year period from 143,000 to over 189,000, accounting for the significant increase in the amount of water usage.

TABLE NO. 1
CONNECTIONS AND WATER SALES VOLUME AND REVENUE
Fiscal Years 2001/02 through 2005/06 with 2006/07 Estimates

	<u>2001/02</u>	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>	Estimate <u>2006/07</u>
<u>Potable</u>						
Residential - Volume (ccf) ⁽¹⁾	7,924,809	8,087,723	8,886,600	8,346,559	9,186,128	11,244,639
Residential - Connections	36,842	38,731	40,438	42,817	43,528	45,015
Residential – Sales Revenue ⁽²⁾	\$ 12,677	\$ 12,886	\$ 14,281	\$ 13,705	\$ 16,784	\$ 18,101
All Others - Volume (ccf)	6,063,207	5,735,124	6,034,888	5,638,416	5,813,193	5,049,511
All Others - Connections	3,467	3,706	4,082	3,225	3,323	3,344
All Others – Sales Revenue ⁽²⁾	\$ 10,735	\$ 10,178	\$ 10,697	\$ 11,041	\$ 11,191	\$ 11,765
<u>Reclaimed</u>						
Reclaimed - Volume (ccf)	1,000,007	1,109,691	1,492,453	1,447,020	1,722,057	1,957,400
Reclaimed - Connections	189	313	411	483	558	588
Reclaimed – Sales Revenue ⁽²⁾	\$ 1,668	\$ 1,688	\$ 2,732	\$ 2,655	\$ 3,438	\$ 3,849
<u>Total</u>						
Total Volume (ccf)	14,988,023	14,932,538	16,413,941	15,431,995	16,721,378	18,251,550
Total Connections	40,498	42,750	44,931	46,525	47,409	48,947
Total Sales ⁽²⁾	\$ 25,081	\$ 24,752	\$ 27,711	\$ 27,401	\$ 31,413	\$ 33,715
Fixed Charges ⁽³⁾	\$ 9,834	\$ 10,156	\$ 8,875	\$ 11,932	\$ 14,479	\$ 14,680
Total Revenue	\$ 34,915	\$ 34,908	\$ 36,585	\$ 39,333	\$ 45,892	\$ 48,395

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

⁽²⁾ Revenue in \$ Thousands.

⁽³⁾ Includes fixed charges, energy charges and delinquency collections on both potable and reclaimed water sales.

Source: Otay Water District.

Table No. 2 shows the 10 largest water users for Fiscal Year 2005/06.

TABLE NO. 2
TEN LARGEST CUSTOMERS BY WATER SALES REVENUES ⁽¹⁾
Year ended June 30, 2006

<u>Customer</u>	<u>Business Type</u>	Usage in Hundred <u>Cubic Feet</u>	% of Water System <u>Consumption</u>	<u>Water Sales</u> <u>Revenues</u>	% of Total Water Sales <u>Revenues</u>
City of Chula Vista	Public	587,270	3.6%	\$1,320,142	3.0%
State of California	Public	428,977	2.6	948,696	2.2
McMillin	Construction	225,890	1.4	666,771	1.5
County of San Diego	Public	296,376	1.8	665,694	1.5
Eastlake III Community Association	Business/ Irrigation ⁽²⁾	243,122	1.5	502,189	1.1
Country Hills Apartments	Residential	84,649	0.5	461,985	1.1
Eastlake County Club	Irrigation ⁽²⁾	207,396	1.3	417,029	1.0
Steele Canyon	Irrigation	153,716	0.9	319,216	0.7
California Bank & Trust	Irrigation ⁽²⁾	162,568	1.0	284,783	0.7
The EastLake Company	Construction	<u>90,006</u>	<u>0.5</u>	<u>214,593</u>	<u>0.5</u>
		2,479,970	15.1%	\$5,801,098	13.3%

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

⁽²⁾ Reclaimed water use.

Source: Otay Water District.

Water Charges

Water Service Rates. Prior to 2004, the District had not increased rates since 1999. In January 2004, 2005 and 2006 the District increased overall rates by approximately 3%, 3.5% and 3.5%, respectively through increases in its monthly fixed charges. The District held a public hearing on January 3, 2007 and approved a 5.4% rate increase that took effect January 3, 2007. The District, based on its internal rate model and the need to fund the CIP, anticipates that it will need to increase its rates by approximately 5.4% in each of the next two years and 5.1% in each of the following three years.

The water rate structure utilizes a monthly minimum fee, based upon the size of the connection pipe and a consumption rate of \$1.08 to \$2.83 per ccf consumed, on a sliding scale based on water usage. "ccf" means 100 cubic feet (1 cubic foot = 7.48 gallons). Average monthly usage for a single family residential connection is 150 ccf. Table Nos. 3 and 4 sets forth the current service charges and volume charges. Customers outside the District or tank trucks pay two times the water rates shown below.

**TABLE NO. 3
MONTHLY FIXED CHARGES
As of January 3, 2007**

<u>Meter Size</u>	<u>Domestic Service Monthly Fixed Charge ⁽¹⁾</u>	<u>All other Classes of Service Monthly Fixed Charge ⁽¹⁾</u>
3/4"	\$14.85	\$ 25.55
1"	23.80	39.55
1-1/2"	46.40	58.30
2"	77.05	78.05
3"	-	129.95
4"	-	168.00
6"	-	325.90
10"	-	695.65

⁽¹⁾ Includes MWD and SDCWA fixed charges.

Source: Otay Water District.

**TABLE NO. 4
CONSUMPTION RATES
As of January 3, 2007**

<u>Customer Class: Domestic</u>		<u>Customer Class: Multi Residential</u>	
<u>Units ⁽¹⁾</u>	<u>Charge Per Unit</u>	<u>Units ⁽¹⁾</u>	<u>Charge Per Unit</u>
1-5	\$1.08	0-4	\$1.78
6-10	1.78	Over 4 -15	1.94
11-35	1.94	Over 15	2.83
Over 35	2.83		

<u>Customer Class: Reclaimed ⁽²⁾</u>		<u>Customer Class: All Other ⁽³⁾</u>	
<u>Units ⁽¹⁾</u>	<u>Charge Per Unit</u>	<u>Units ⁽¹⁾</u>	<u>Charge Per Unit</u>
All	\$1.65	All	\$1.91

⁽¹⁾ 1 unit equals 100 cubic feet of water.

⁽²⁾ Including irrigation using non potable and reclaimed.

⁽³⁾ Business, Combined Domestic/Agriculture, Publicly Owned, Commercial, Agriculture, Non-Agricultural Irrigation, Special Agreement.

Source: Otay Water District.

Additionally, commercial agriculture users participating in MWD or SDCWA conservation programs are eligible to receive discounts from the base agriculture rate. As noted above, 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 increases in costs imposed by SDCWA or MWD not already estimated to occur (approximately 54% of the projected rate increases over the next five years relate to estimated increases in SDCWA and MWD charges to the District).

Other Charges. The District charges an energy charge when water must be pumped up to a reservoir serving the connection, and betterment charges in certain areas ranging from \$.04 to \$.27 per unit to pay for reservoirs, pump stations and other infrastructure. The District also applies additional water development charges in some areas in the North District.

Capacity Fees and Meter Fees. The District charges fees to connect to the Water System as well as a surcharge per meter. Current capacity fees are approximately \$4,949 for single family residential connections and meter charges range from \$206 for a single family residence to \$5,207 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, Revenues include only the first \$10 of availability fees.

Annexation Fees. When service is requested outside the boundaries of an improvement district, the land to be serviced is annexed and an annexation fee is charged by the District. Current annexation fees are \$1,458 for single family residential connections and are adjusted quarterly according to a cost of living index.

Proposition 218. On November 5, 1996, the voters of the State approved Proposition 218, the "Right to Vote on Taxes Act." Proposition 218 added Articles XIIC and XIID to the State Constitution, which contain a number of provisions affecting the ability of the District to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 also extends the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes, assessments, fees and charges imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees or charges, except those which are pledged to the repayment of debt. If such provisions were held to apply to the District's fees or charges and a repeal or reduction in District fees or charges were to occur, and it was held that any such taxes, assessments, fees or charges were not pledged to any debt repayment, the District's ability to pay debt service on the Certificates could be adversely affected.

Article XIID conditions the imposition or increase of any "fee" or "charge" upon there being no written majority protest after a required public hearing and, for fees and charges other than for sewer, water or refuse collection services, voter approval. Article XIID defines "fee" or "charge" to mean levies (other than *ad valorem* or special taxes or assessments) imposed by a local government upon a parcel or upon a person as an incident of the ownership or tenancy of real property, including a user fee or charge for a "property-related service." One of the requirements of Article XIID is that before a property related fee or charge may be imposed or increased, a public hearing upon the proposed fee or charge must be held and mailed notice sent to the record owner of each identified parcel of land upon which the fee or charge is proposed for imposition. In the public hearing if written protests of the proposed fee or charge are presented by a majority of the owners of affected identified parcel(s), an agency may not impose the fee or charge.

Following the enactment of Proposition 218 in 1996, appellate court cases and an Attorney General opinion initially indicated that fees and charges levied for water and wastewater services are not property-related fees and charges and thus are not subject to the above described requirements of Proposition 218 regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed.

In a decision rendered in February, 2004, the California Supreme Court in *Richmond et al. v. Shasta Community Services District*, 32 Cal. 4th 409, upheld a Court of Appeals decision that water and wastewater connection fees were not property related fees or charges subject to Article XIID, while at the same time stating in dicta that fees for ongoing water and wastewater service through an existing connection were property related fees and charges.

On March 23, 2005, the California Fifth District Court of Appeal published *Howard Jarvis Taxpayers Association v. City of Fresno*, concluding that in lieu fees charged as a component of water and wastewater utility service charges are subject to the requirements of Proposition 218. The ruling in *City of Fresno* relies in part on the *Richmond* decision's dicta and appears to conflict with *Apartment Association of Los Angeles County, Inc. v. City of Los Angeles*, 24 Cal. 4th 830 (2001), in which the California Supreme Court ruled that the property-related fee provisions of Proposition 218 apply only to fees triggered by property ownership alone and not by voluntary conduct of the property owner, such as consuming utility services. The *City of Fresno* decision is final, as review has been denied by the California Supreme Court.

On July 24, 2006, the California Supreme Court stated in *Bighorn-Desert View Water Agency v. Beringson* that charges for ongoing water delivery are property related fees and charges within the meaning of Article XIID and are further subject to the provisions of Section 3 of Article XIIC. This decision reversed the July 2004 California Appellate Court decision (*Bighorn-Desert View Water Agency v. Beringson* (180 Cal. App 4th 890)) which opined that the costs of water services are not property related or incidents of property ownership because they are based on consumption and not on property ownership. The California Supreme Court held that such water service charges may be reduced or repealed through a local voter initiative pursuant to Article XIIC of the California Constitution. The Supreme Court stated that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay debt service on bonded debt and operating expenses. However, the Supreme Court stated in its opinion that water providers may determine rates and charges upon proper action by the governing body and that the legislative body may increase a charge which was not affected by initiative or impose an entirely new charge.

As a result of this case, there can be no assurance that Proposition 218 will not limit the ability of the District to impose, levy, charge and collect increased fees and charges for water services.

On January 3, 2007, the District approved rate increases following a public hearing held pursuant to Article XIID of the Constitution. The District mailed notice of the hearing in accordance with Section 6 of Article XIID at least 45 days in advance of the public hearing to the owners and tenants of all metered property in the District, but not to the owners of undeveloped and unmetered property. Article XIID and Government Code Section 53750 require that notice be mailed to all "identified parcels" and defines an "identified parcel" as a parcel of real property upon which a proposed property-related fee or charge is proposed to be imposed. The District and its General Counsel believe that "identified parcels" do not include parcels of undeveloped property that are not metered based on language in Section 6.b(4) of Article XIID which provides that a fee or charge can not be imposed unless the service is used by or immediately available to the owner of a parcel and specifically prohibits the imposition of a fee or charge based on "potential or future use." Accordingly, notice of the January 3, 2007, public hearing was mailed only to owners of record and tenants of metered property and not to owners of undeveloped and unmetered property. The District and its General Counsel believe that the District has complied with the notice and protest requirements of Article XIID, that the fee increase enacted on January 3, 2007 is valid

and that a court of competent jurisdiction would uphold the District's fee increases in the event of a challenge as to the lack of notice to the owners of undeveloped and unmetered property. There are approximately 47,952 metered parcels in the District and approximately 7,345 parcels of undeveloped and unmetered property. Therefore, even if all of the undeveloped and unmetered parcels had protested at the January 3, 2007 public hearing, a majority protest would not have existed.

Taxes

The County levies a 1% *ad valorem* tax on behalf of all taxing agencies in the County, including the District. 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 the 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 "situation" 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.

The availability of revenue from growth in the tax base may be affected by the establishment of redevelopment agencies which, under certain circumstances, may be entitled to revenues resulting from the increase in certain property values. As of the date of this Official Statement, a portion of the District's tax base is within a redevelopment plan area.

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.

However, the State Budgets for Fiscal Years 2003/04 through 2005/06 reallocated approximately \$1.30 billion of the 1% *ad valorem* property tax from local government to schools. Of that amount, approximately \$350 million was reallocated from special districts. The District estimates that this resulted in a reduction of approximately 40% in Taxes as a result of the ERAF Shift in those years. No additional ERAF shift was included in the State's Budget for Fiscal Year 2006/07 or is proposed for Fiscal Year 2007/08. As a result, the District's budget for Fiscal Year 2006/07 does not include a similar reduction in Taxes. There can be no assurance that the share of the 1% *ad valorem* property tax the

District currently receives will not be reduced further pursuant to State legislation enacted in the future to address future budget deficits. See “Historical and Projected Taxes, Net Revenues and Debt Service Coverage” herein for historic and projected receipts of Taxes.

Personnel

The District currently has 175 employees. The OWD Employee Association (the “Union”) represents 109 full-time and 1 part-time employees as a collective bargaining unit. The District has not experienced any strike or other labor actions. The current Memorandum of Understanding between the District and the Union covers a five year period, and expires June 30, 2008.

The District provides retirement benefits for its employees through a contractual agreement with the California Public Employees’ Retirement System (“CalPERS”). Active members in the District’s benefit pension plan are required to contribute 8% of their annual covered salary. The District has elected to contribute 7% on behalf of its employees. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2006 was 20.869%, and a similar rate is projected by CalPERS for the current fiscal year 2006/07 and again for 2007/08. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For the fiscal year ended June 30, 2005, the District’s annual pension costs and actual contribution was \$1,684,657, and, for fiscal year ended June 30, 2006, the District’s annual pension cost and actual contribution was \$2,120,529, a 26% increase from Fiscal Year 2004/05. The required contribution for Fiscal Year 2005/06 was determined as part of the June 30, 2005 actuarial valuation, pursuant to which the District had an unfunded actuarial accrued liability of approximately \$14.2 million as of June 30, 2005. As part of the June 30, 2005 actuarial valuation, CalPERS estimates the District’s unfunded actuarial accrued liability will not change significantly as of June 30, 2006 or June 30, 2007. Unfunded liabilities 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 10% of unamortized gains and losses each year. If the plan’s accrued liability exceeds the actuarial value of plan assets, then the amortization payment of the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

In addition to the pension benefits described above, it is the District’s practice and policy to provide certain life insurance and health care benefits (“post-retirement benefits”) for eligible retired employees, directors and eligible dependents. These benefits vary based on the hire date of the employee.

Expenses for these post-retirement benefits are recognized as insurance premiums and are paid as retirees report claims under the District’s health insurance program. Post-retirement benefit expenses of \$641,464 and \$551,062 were recognized for 59 and 53 eligible retirees for the years ended June 30, 2006 and 2005, respectively. Financial reporting of the actuarial accrued liabilities corresponding to all promised post-retirement benefits associated with past services of District employees is not required until Fiscal Year 2008/09. The District’s Board has designated approximately \$16.4 million of its reserves to fully fund its estimated liabilities with respect to post-retirement benefits as of the last actuarial projection dated June 30, 2006. However, the District has not yet established an irrevocable trust or other legally separate plan for this purpose.

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. The District purchases commercial insurance by participation in an insurance pool through Special Districts Risk Management Authority (SDRMA) with the following coverages: property coverage - \$350 million/occurrence with replacement cost for scheduled property; \$100 million for boiler and machinery; \$200 million for workers' comp.; \$500,000 for personal liability coverage for board members; \$400,000 for employee dishonesty coverage; \$750,000 for uninsured/underinsured motorists; and \$10 million per occurrence for each of the following types of coverage, auto liability, public officials and employees errors, employment practices liability, employee benefits liability, and general liability.

Workers' Compensation

The District is a member of the Special District Risk Management Authority (SDRMA). SDRMA is a not-for-profit public agency formed under California Government Code Section 6500 et seq. and provides a full-service risk management program for California's local governments. For more than 20 years, SDRMA has provided CSDA members comprehensive coverage protection for workers' compensation, general liability, public officials errors and omissions, employment practices liability, auto, property, boiler and machinery and crime and fidelity coverage. SDRMA currently has a pool of 328 agencies in the Workers Compensation Program. The District is insured up to \$200 million Statutory Workers' Compensation and \$5 million in Employer's Liability with a Zero Member Deductible. Separate financial statements for SDRMA may be obtained at: Special District Risk Management Authority (SDRMA) 1112 I Street, Suite 300, Sacramento, CA 95814.

Health insurance

The District maintains a self-insurance program covering all its employees, retirees, and other dependents. Health claims are processed and administered through a health insurance administrator and paid by the District upon presentation. The District has obtained a stop-loss insurance policy to cover individuals with claims exceeding \$45,000. The District has estimated accrued claims to be \$422,327 and \$299,700 at June 30, 2006 and 2005, respectively.

District Reserves and Investment Policy

As of June 30, 2006, the District had approximately \$40.7 million in unrestricted reserves, of which the Board has designated \$16.4 million to fully fund its estimated liabilities with respect to post-retirement benefits as of the last actuarial projection dated June 30, 2006. The District's reserves are not pledged to and do not secure the District's obligation to make Installment Payments.

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 and 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 November 30, 2006 are set forth in Table 5 below. For additional information relating to the District's investments, see "APPENDIX B - DISTRICT AUDITED FINANCIAL STATEMENTS," Note 2.

TABLE NO. 5
SUMMARY OF INVESTMENTS
As of December 31, 2006

<u>Investments</u>	<u>Market Value</u>	<u>Book Value</u>	<u>% of Portfolio</u>
Federal Agency Issues – Callable	\$44,923,633.58	\$44,975,782.52	64.51%
Federal Agency Issues – Coupon	5,985,937.50	5,991,683.78	8.59
Certificates of Deposit – Bank	79,108.00	79,108.00	0.11
Local Agency Investment Fund (LAIF)	18,557,929.08	18,570,270.84	26.64
San Diego County Pool	<u>102,825.59</u>	<u>102,885.03</u>	<u>0.15</u>
	\$69,649,433.45	\$69,719,730.17	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, 2006 as shown in Table No. 6.

TABLE NO. 6
OTAY WATER DISTRICT
OUTSTANDING INDEBTEDNESS
AS OF JUNE 30, 2006

Category of Indebtedness	Original Issue	Amount Outstanding	Final Maturity
(1) 1998 General Obligation Refunding Bonds	\$11,835,000	\$9,590,000	2022
(2) 1996 Certificates of Participation	15,400,000	13,100,000	2026
(3) 2004 Refunding Certificates of Participation	12,270,000	11,825,000	2023
(4) State Water Resources Control Board Note		1,659,037	2010
(5) Capital Leases		51,589	2007

- (1) 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. Annual debt service is approximately \$845,000. The District also has approximately \$29 million in general obligation bonds authorized between 1960 and 1978 for various Improvement Districts throughout the District, but unissued. The general obligation bonds are not secured by a lien on Revenues or Taxes and the District has no current plans to issue any of the authorized but unissued general obligation bonds.

- (2) In June 1996, the District issued its 1996 Variable Rate Demand Certificates of Participation to provide funds for the design, acquisition, construction and equipping of various water and water-related facilities and an administration building for use in connection with the administration of the District. 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 the Installment Payments securing the Certificates. Interest is payable at a variable rate of interest, and the interest rate at June 30, 2006 was 3.95%. The annual installment payments are estimated at approximately \$950,000 based on the 25-Year Revenue Bond Index.
- (3) In August 2004, the District issued its 2004 Revenue Refunding Certificates of Participation to defease its outstanding 1993 Certificates of Participation. The 2004 Certificates 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 Certificates. Annual installment payments are approximately \$945,000.
- (4) The State Water Resources Control Board Note bears interest at 3.5% and is payable in annual installments of \$366,325. This note has no lien on Net Revenues and Taxes.
- (5) The District leases a truck under a capital lease that ends in February 2007. This lease has no lien on Net Revenue and Taxes.

Source: Otay Water District.

Historical Operating Results

The following tables summarize the Statement of Net Assets included in the District's audited financial statements for the last three fiscal years. The audited financial statements of the District for the Fiscal Year ended June 30, 2006 are attached hereto as "APPENDIX B" and should be read in their entirety.

TABLE NO. 7
OTAY WATER DISTRICT
NET ASSETS
For the Fiscal Year Ended June 30

	<u>2004</u>	<u>2005</u>	<u>2006</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 14,144,085	\$ 3,473,662	\$ 13,755,907
Restricted Cash and Cash Equivalents ⁽¹⁾	13,669,518	6,623,379	-
Investments	57,574,812	73,376,529	62,596,513
Accounts Receivable	6,352,400	7,105,484	6,808,999
Accrued Interest Receivable	278,750	82,483	818,798
Restricted Accrued Interest Receivable	196,878	506,678	-
Restricted Taxes and Availability Charges	282,345	322,438	318,090
Inventory	486,308	620,119	592,426
Prepaid Expenses and Other Current Assets	<u>250,957</u>	<u>341,686</u>	<u>664,133</u>
Total Current Assets	<u>\$ 93,236,053</u>	<u>\$ 92,452,458</u>	<u>\$ 85,554,866</u>
Non-Current Assets:			
Restricted Cash and Cash Equivalents ⁽¹⁾	\$ 13,407,158	\$ 14,430,450	\$ -
Capital Assets, Net of Depreciation	329,317,163	362,480,711	396,987,584
Other Non-Current Assets	<u>777,818</u>	<u>894,745</u>	<u>838,990</u>
Total Non-Current Assets	<u>\$343,502,139</u>	<u>\$377,805,906</u>	<u>\$397,826,574</u>
Total Assets	<u>\$436,738,192</u>	<u>\$470,258,364</u>	<u>\$483,381,440</u>
LIABILITIES			
Current Liabilities:			
Current Maturities of Long-term Debt	\$ 1,334,440	\$ 1,456,907	\$ 1,529,848
Accounts Payable	7,449,165	11,809,983	11,617,499
Accrued Payroll Liabilities	2,129,086	2,012,855	2,348,853
Other Accrued Liabilities	476,764	603,657	683,350
Customer Deposits	2,565,976	2,244,193	2,489,101
Liabilities Payable From Restricted Assets:			
Accounts Payable	2,482,390	4,556,884	7,633,220
Accrued Interest	<u>436,252</u>	<u>403,839</u>	<u>413,442</u>
Total Current Liabilities	<u>16,874,073</u>	<u>23,088,318</u>	<u>26,715,313</u>

⁽¹⁾ Consisted of accumulated capacity fees, which have been expended on expansion capital projects.

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	<u>2004</u>	<u>2005</u>	<u>2006</u>
Non-Current Liabilities:			
Liabilities Payable From Restricted Assets:			
Prepaid Capacity Fees	\$ 783,816	\$ 733,854	\$ 733,915
Long-term Debt			
General Obligation Bonds	9,045,209	8,728,482	8,396,755
Certificates of Participation	25,016,312	24,908,607	24,119,352
Notes Payable	1,956,870	1,659,035	1,350,778
Capital Lease Payable	<u>\$ 100,666</u>	<u>\$ 51,595</u>	<u>\$ -</u>
Total Non-Current Liabilities	<u>\$ 36,902,873</u>	<u>\$ 36,081,573</u>	<u>\$ 34,600,800</u>
Total Liabilities	<u>\$ 53,776,946</u>	<u>\$ 59,169,891</u>	<u>\$ 61,316,113</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$291,863,666	\$325,676,089	\$361,590,845
Restricted	23,853,441	16,188,364	-
Unrestricted	<u>67,244,139</u>	<u>69,224,020</u>	<u>60,474,482</u>
Total Net Assets	<u>\$382,961,246</u>	<u>\$411,088,473</u>	<u>\$422,065,327</u>

Source: Otay Water District Financial Statements.

Historical and Projected Taxes, Net Revenues and Debt Service Coverage

Taxes and Net Revenues of the Water System are estimated to be sufficient to pay the Installment Payments and to provide debt service coverage as set forth in the following table. No assurance can be given that actual Taxes and Net Revenues will be equal to the projections provided in the table. The District may issue additional obligations secured by Taxes and Net Revenues on parity with the obligation to make Installment Payments with respect to the Certificates, the 1996 Certificates and the 2004 Certificates.

Table 8 below sets forth the historic Taxes and Net Revenues and Debt Service Coverage for the last four fiscal years.

TABLE NO. 8
HISTORICAL TAXES AND NET REVENUES (in '000's) AND DEBT SERVICE COVERAGE
for the fiscal year ended June 30

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenues:				
Water Sales	\$34,908	\$39,045	\$39,348	\$43,756
Connection and Other Fees	692	720	540	1,774
Availability	293	446	219	558
Annexation Fees	3,624	3,645	2,545	1,257
Capacity Fees	8,900	10,079	9,131	6,715
Investment Earnings	<u>2,315</u>	<u>1,097</u>	<u>2,052</u>	<u>3,174</u>
Total Revenue	\$50,732	\$55,032	\$53,835	\$57,234
Operation and Maintenance Costs:				
Water Purchases	\$18,188	\$19,724	\$21,988	\$25,460
Utilities	1,919	1,648	2,012	2,114
Payroll	8,611	9,982	12,067	12,885
Administrative	3,474	3,139	4,411	4,797
Materials and Maintenance	2,557	2,233	2,863	2,264
Repairs and Replacement	<u>2,700</u>	<u>2,444</u>	<u>124</u>	<u>-</u>
Total Operation and Maintenance Costs	\$37,449	\$39,170	\$43,465	\$47,521
Net Revenues	\$13,283	\$15,862	\$10,370	\$ 9,713
Taxes	<u>\$ 1,528</u>	<u>\$ 2,162</u>	<u>\$ 1,332</u>	<u>\$ 1,338</u>
Taxes and Net Revenues	\$14,811	\$18,024	\$11,702	\$11,052
Debt Service				
1993 Installment Payments ⁽¹⁾	\$ 1,020	\$ 1,013	\$ -	\$ -
1996 Installment Payments	1,048	1,031	890	583
2004 Installment Payments	<u>-</u>	<u>-</u>	<u>946</u>	<u>897</u>
Total Debt Service	\$ 2,068	\$ 2,044	\$ 1,836	\$ 1,480
Coverage Ratio	716%	882%	637%	747%

⁽¹⁾ Refunded by the 2004 Certificates.

Source: Otay Water District.

The projections of Revenues and the corresponding Taxes and Net Revenues shown in Table No. 9 are based on the assumptions shown below. The District believes the assumptions upon which the projections are based are reasonable; however, some assumptions may not materialize and unanticipated events and circumstances may occur (see "CERTIFICATE OWNERS' RISKS"). To the extent that the assumptions are not actually realized, the Agency's ability to timely make the Installment Payments may be adversely affected.

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

- (a) Water rates are projected to increase 5.4% on January 1, 2008 and January 1, 2009 and 5.1% on January 1, 2010, on January 1, 2011 and on January 1, 2012, (see “Water Charges – Proposition 218” herein).
- (b) Future residential connections are projected to increase as follows for an overall 3.3% increase annually during the six year period:

	Number of <u>Meters</u>	% <u>Increase</u>
2007	840	3.9%
2008	1,000	2.6%
2009	1,500	4.5%
2010	1,400	2.7%
2011	1,350	2.6%
2012	1,800	4.5%

Commercial and other connections are also projected to increase an average 3% annually.

- (c) Capacity and annexation fee rates are projected to increase 4.9% in each year and are then calculated based on the projected new connections described in (b) above.
- (d) 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 \$50,000, or approximately 2%, annually. No additional ERAF deductions are assumed (see “Taxes” herein).
- (e) Non-operating income is excluded from the projection. Non-operating miscellaneous income of the District included in the District’s financial statements consists of property rental, golf course income and sewer billing fees for the City of Chula Vista.
- (f) Water Supply costs are anticipated to increase between 7 and 8% annually as a result of increases in cost of purchased water and usage by new customers.
- (g) Annual inflationary cost increases in base operating costs are projected as follows:

Utilities	2.8%
Materials and Maintenance	4.0%
Administrative Costs	3.0%
Salaries	4.5%
Medical Benefits	12.0%
Workers Comp	10.0%
Other Benefits	6.0%

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

- (h) 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 January 11, 2007 of 4.55%.
- (i) For the purpose of the Table No. 9, the District anticipates that additional Parity Debt will be issued in 2009, in the approximate amount of \$20 million and in 2011, in the approximate amount of \$12 million.

TABLE NO. 9
PROJECTED TAXES AND NET REVENUES (in '000's) AND DEBT SERVICE COVERAGE
for the fiscal year ended June 30

	<u>2007</u> ⁽¹⁾	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenues:						
Water Sales	\$ 47,616	\$ 52,654	\$ 57,261	\$ 61,906	\$ 66,769	\$ 72,838
Connection and Other Fees	1,453	1,488	1,529	1,563	1,609	1,665
Availability Fees	575	591	615	637	658	687
Annexation Fees	1,217	1,306	1,417	1,530	1,650	1,795
Capacity Fees	7,131	7,972	11,719	10,489	10,666	19,874
Investment Earnings	<u>2,712</u>	<u>3,539</u>	<u>3,610</u>	<u>3,912</u>	<u>3,863</u>	<u>3,910</u>
Total Revenue	\$ 60,704	\$ 67,550	\$ 76,151	\$ 80,037	\$ 85,215	\$100,769
Operation and Maintenance Costs:						
Water Purchases	\$27,063	\$28,504	\$30,720	\$33,099	\$35,584	\$38,571
Utilities	2,514	2,912	3,098	3,278	3,461	3,695
Payroll	13,597	14,373	16,014	16,959	17,975	19,070
Administrative	5,371	5,510	5,652	5,798	5,946	6,098
Materials and Maintenance	<u>3,024</u>	<u>3,145</u>	<u>3,271</u>	<u>3,402</u>	<u>3,538</u>	<u>3,680</u>
Total Operation and Maintenance Costs	\$ 51,569	\$ 54,444	\$ 58,755	\$ 62,536	\$ 66,504	\$ 71,114
Net Revenues	\$ 9,135	\$ 13,106	\$ 17,396	\$ 17,501	\$ 18,711	\$ 29,655
Taxes	<u>\$ 2,803</u>	<u>\$ 2,853</u>	<u>\$ 2,903</u>	<u>\$ 2,953</u>	<u>\$ 3,003</u>	<u>\$ 3,053</u>
Taxes and Net Revenues	\$ 11,938	\$ 15,959	\$ 20,299	\$ 20,454	\$ 21,714	\$ 32,708
Debt Service						
1996 Installment Payments	\$ 885	\$ 872	\$ 955	\$ 937	\$ 919	\$ 901
2004 Installment Payments	938	934	933	933	931	934
2007 Installment Payments	-	1,856	2,600	2,600	2,600	2,600
Estimated Future Financing Debt Service	<u>-</u>	<u>-</u>	<u>1,565</u>	<u>1,565</u>	<u>2,890</u>	<u>2,890</u>
Total Debt Service	\$ 1,823	\$ 3,662	\$ 6,053	\$ 6,035	\$ 7,340	\$ 7,325
Coverage Ratio	655%	436%	335%	339%	296%	447%

⁽¹⁾ 2006/2007 Budget, reflects 5.4% rate increase effective January 3, 2007.

Source: Otay Water District.

The projected Taxes and Revenues shown above are subject to several variables as described on the previous page. The District provides no assurance that the projected Taxes and Net Revenues will be achieved (see "CERTIFICATE OWNERS' RISKS" herein).

SOURCES OF PAYMENT FOR THE CERTIFICATES

General

Each Certificate represents a direct, undivided proportionate interest in the Installment Payments to be made by the District to the Corporation under the Installment Purchase Agreement. The Corporation has assigned all of its rights under the Installment Purchase Agreement, including its rights to receive Installment Payments from the District and its remedies under the Installment Purchase Agreement to the Trustee for the benefit of the Owners of the Certificates pursuant to the Assignment Agreement. The Installment Payments are sufficient to pay, when due, the annual principal and interest represented by the Certificates.

Installment Payments

Installment Payments are secured by a charge and lien on Taxes and Revenues of the Water System and are payable from Taxes and Net Revenues in the manner described herein. Under the Installment Purchase Agreement, the District has agreed to deposit all Revenues in the Revenue Fund and all Taxes in the Tax Fund which are irrevocably pledged to the payment of the Installment Payments as provided in the Installment Purchase Agreement and the Revenues and Taxes will not be used for any other purpose while any of the Installment Payments remain unpaid except as described below. Under the terms of the Installment Purchase Agreement, Revenues are applied first to pay Operation and Maintenance Costs. The pledge of Taxes and Revenues constitutes a lien thereon and, subject to application of amounts on deposit therein as permitted in the Installment Purchase Agreement, on the Revenue Fund, the Tax Fund and the other funds and accounts created under the Installment Purchase Agreement for the payment of the Installment Payments and all other Contracts and Bonds, including, but not limited to, the 2004 Installment Payments and the 1996 Installment Payments, in accordance with the terms of the Installment Purchase Agreement and the Trust Agreement. The Installment Payments securing the Certificates are payable from Taxes and Net Revenues on a parity with installment payments securing the District's 1996 Certificates and 2004 Certificates. *The 1996 Certificates bear interest at a variable rate.*

"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.

"Net Revenues" means, for any Fiscal Year, the Revenues for such Fiscal Year less the Operation and Maintenance Costs for such Fiscal Year.

"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, and (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 Installment Purchase Agreement; 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 Certificates or of the Installment Purchase Agreement 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.

Moneys in the Tax Fund and Revenue Fund will be used and applied by the District as provided in the Installment Purchase Agreement. The District has covenanted to pay from the moneys in the Revenue Fund 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 they 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, will be used and applied to pay Debt Service, including the Installment Payments, the 1996 Installment Payments the 2004 Installment Payments and any Contracts or Bonds secured on a parity with the Installment Payments, then to replenish all reserve funds established for the Certificates and such Bonds or Contracts, including the Reserve Fund, and thereafter for any purpose permitted by law.

The Installment Payments are payable only from Taxes and Net Revenues and are not secured by, and the Certificate Owners have no security interest in or mortgage on the property of the Water System or any other assets of the District. Default by the District will not result in loss of the Project or the Water System or any other assets of the District. Should the District default, the Trustee, as assignee of the Corporation, with the consent of the Insurer may, and at the direction of the Insurer shall, declare the entire principal amount of the unpaid Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, and by mandamus or other action or proceeding or suit at law or in equity enforce its rights against the District, compel the District to perform and carry out its duties under the law and the agreements and covenants required to be performed by it contained in the Installment Purchase Agreement or by suit in equity enjoin any acts or things which are unlawful or violate the rights of the Corporation. See "APPENDIX A - SUMMARY OF THE LEGAL DOCUMENTS - Events of Default and Remedies of the Corporation."

Rates and Charges

Pursuant to the Installment Purchase Agreement, the District shall 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 one hundred twenty-five percent (125%) of the Debt Service (including for purposes of such calculation the obligation of the District to repay Policy Costs, if any, to the Insurer) on the Certificates, the 1996 Certificates, and the 2004 Certificates any Parity Debt and Additional Contracts or Bonds 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 Installment Purchase Agreement.

Parity Debt

Pursuant to the Installment Purchase Agreement, the District may issue or incur additional obligations (“Parity Debt”) payable from Taxes and Net Revenues subject to the following provisions:

1. While Installment Payments remain due and payable under the 1996 Installment Sale Agreement, the following conditions will remain applicable in connection with any Parity Debt:
 - (a) an Independent Financial Consultant shall render to and file with the District and the Trustee a written opinion that Taxes and Net Revenues for any twelve (12) consecutive calendar months in the eighteen (18) calendar months immediately preceding the issuance of the Parity Debt adjusted as set forth below, are at least equal to 125% of maximum total annual amount of Outstanding Installment Payments and on the additional Parity Debt to be issued;
 - (b) an Independent Financial Consultant having a favorable reputation for special skill, knowledge and experience in analyzing the operations of water systems shall render to and file with the District and the Trustee a written opinion that Taxes and Net Revenues in each of the three (3) Fiscal Years succeeding the issuance of the Parity Debt will equal at least 125% of the maximum amount of the sum of (1) the aggregate amount of the Installment Payments, and (2) the aggregate amount of annual debt service or other payments with respect to outstanding Parity Debt, including Parity Debt to be issued, and all other obligations constituting a lien on Net Revenues which will be due in any Fiscal Year succeeding the issuance of the Parity Debt other than reimbursement obligations with respect to any Facility relating to the Certificates or any Parity Debt;
 - (c) with respect to any indebtedness of the District to be issued or incurred on a subordinate and junior basis to Parity Debt (“Junior Debt”), Net Revenues for any twelve consecutive months in the eighteen calendar months immediately preceding the Junior Debt to be issued, after the payment of all Installment Payments and Parity Debt, are at least equal to 100% of the maximum total annual amount owing and outstanding Junior Debt to be issued; and
 - (d) money (or a reserve credit facility) shall be deposited in a separate reserve fund established for such Parity Debt in an amount necessary to increase the amount in the reserve fund established for such Parity Debt to the Reserve Requirements for the outstanding Certificates and taking into account the issuance of such Parity Debt.

For the purposes of calculating Net Revenues as set forth in subparagraph (a) above, adjustment to the computations of Net Revenues may be made for the following:

- (a) 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 of the additional Parity Debt;
- (b) customers added to the Water System subsequent to the commencement of the twelve-month period but prior to the date of issuance of the additional Parity Debt;
- (c) 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 Parity Debt; and
- (d) the estimated change in Net Revenues which will result from services provided under any long-term, guaranteed contract which extends the life of additional parity Debt if entered into subsequent to the commencement of the twelve-month period but prior to the date of issuance of the additional Parity Debt.

For the purposes of the preceding sentence, it shall be assumed that the Installment Payments and any Parity Debt which bears a variable interest rate bears interest at a fixed rate equal to the greater of (i) the most recently published Bond Buyer 25 Bond Revenue Index (or comparable index if no longer published) or (ii) the average variable rate of interest borne by such Parity Debt during the preceding thirty-six (36) months or, if no such variable rate Parity Debt is at the time outstanding, the highest interest rate borne by variable rate debt for which the interest rate is computed by reference to an index comparable to that to be utilized in determining the interest rate for such Parity Debt.

2. In addition, while Installment Payments remain due and payable under either the 2004 Installment Purchase Agreement or the Installment Purchase Agreement, the District may at any time execute any Contract or issue any Bonds (“Additional Contracts or Bonds”), as the case may be, provided an Independent Financial Consultant or 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 Policy Costs, if any, to the Insurer), 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 Policy Costs are past due and owing to the Insurer, the Insurer must provide written consent to the issuance of any Bonds or the execution of any Contracts.

Reserve Fund

A Reserve Fund has been established under the Trust Agreement to be held by the Trustee to further secure the timely payment of principal and interest with respect to the Certificates. The Reserve Fund is required to be funded in an amount equal to the least of (1) maximum annual Installment Payments, (2) 10% of the initial principal amount of the Certificates or (3) 125% of average annual Installment Payments, initially, an amount equal to \$ _____. Amounts in the Reserve Fund are to be used only to

make Installment Payments with respect to the Certificates to the extent the amounts in the Certificates Payment Fund are insufficient for such purpose. The reserve requirement for the 2004 Certificates has been satisfied by means of a surety bond. Such surety bond is not available to pay the Certificates. There is no reserve account established for the 1996 Certificates.

The Reserve Fund will be initially funded with the deposit of a Reserve Policy (defined below).

The Reserve Policy

[to be completed]

Property Insurance

The Installment Purchase Agreement requires the District to maintain or cause to be maintained with respect to the Water System, comprehensive general public liability and property damage insurance (see “APPENDIX A - SUMMARY OF THE LEGAL DOCUMENTS - INSTALLMENT PURCHASE AGREEMENT - Insurance” herein). 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, then the excess Net Proceeds shall be applied in part to the prepayment of 2007 Installment Payments and in part to such other fund or account as may be appropriate and used for the retirement of Bond and Contracts in the same proportion which the aggregate unpaid principal balance of 2007 Installment Payments then bears to the aggregate unpaid principal amount of such Bonds and Contracts. If such Net proceeds are sufficient to enable the District to retire the entire obligation evidenced by the 2007 Installment Payments as well as the entire obligations evidenced by 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 thereupon such Net proceeds shall be applied to the prepayment of the 2007 Installment Payments and to the retirement of such Bonds and Contracts as described under the caption “THE CERTIFICATES - Prepayment – Prepayment From Net Proceeds of Insurance or Condemnation” herein.

Bond Insurance

[to be completed]

CERTIFICATE OWNERS' RISKS

The following information should be considered by prospective investors in evaluating the 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 Certificates. 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 Trust Agreement. 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 operation of the Water System.

Increased Expenses

There can be no assurance that expenses 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 or other expenses could require increases in rates or charges in order to comply with the rate covenant described herein and in the Trust Agreement, and could increase the possibility of nonpayment of the Certificates.

Insurance

The Trust Agreement obligates the District to obtain and keep in force various forms of insurance or self-insurance, subject to deductibles, for repair or replacement of a portion of the Water System in the event of damage or destruction to such portion of the Water System.

No assurance can be given as to the adequacy of any such self-insurance or any additional insurance to fund necessary repair or replacement of any other portion of the Water System. Significant damage to the Water System could cause the Water System to be unable to generate sufficient Taxes and Net Revenues to pay debt service on the Certificates, the 2004 Certificates and the 1996 Certificates.

Additional Obligations Payable from Net Revenues

The District may issue additional Certificates or enter into other obligations payable from Taxes and Net Revenues pledged for payment of the Certificates on a parity with its pledge of such Taxes and Net Revenues to the Installment Payments relating to the Certificates, the 2004 Certificates and the 1996 Certificates. The ability of the District to enter into such parity debt is subject to certain requirements set forth in the Installment Purchase Agreement. See "SOURCES OF PAYMENT FOR THE CERTIFICATES – Parity Debt."

The District may also issue bonds or enter into obligations payable from Taxes and Net Revenues which are subordinate to the Certificates.

Risks Relating to Water Supplies

The District's current potable water supply comes entirely from purchases from the San Diego County Water Authority, which in turn currently purchases 90% of its water supply from the Metropolitan Water District. 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 San Diego County Water Authority's Water Management Plan with respect to water supply in the region.

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 XIII C and XIII D 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 "THE WATER SYSTEM – Water Charges – 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 earthquake, may have the effect of reducing Revenues through damage to the Water System and/or adversely affecting the economy of the surrounding area. The Installment Purchase Agreement 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 prepay all Outstanding Certificates or that losses in excess of the insured amount will not occur.

Early Prepayment Risk

Early prepayment of the Certificates may occur in whole or in part without premium, on any date if the Water System or a portion thereof is lost, destroyed or damaged beyond repair or taken by eminent domain, or on any date on or after September 1, 2017, without a premium, if the District exercises its right to prepay the Certificates in whole or in part pursuant to the provisions of the Trust Agreement.

Limited Recourse on Default

If the District defaults on its obligation to pay debt service on the Certificates, the Trustee has the right to accelerate the total unpaid principal amount of the Certificates. 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.

Bankruptcy Risks

The enforceability of the rights and remedies of the owners of the Certificates 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 Certificates 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 Certificates 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 Certificates 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 Certificates.

Loss of Tax Exemption

In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Certificates, the District has covenanted in the Trust Agreement to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Internal Revenue Code. The interest on the Certificates could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of the Certificates, as a result of acts or omissions of the District in

violation of this or other covenants in the Trust Agreement. Should such an event of taxability occur, the Certificates are not subject to redemption or any increase in interest rates and will remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Trust Agreement. See “LEGAL MATTERS – Tax Matters” herein.

Secondary Market

There can be no guarantee that there will be a secondary market for the Certificates or, if a secondary market exists, that such Certificates can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

LEGAL MATTERS

Enforceability of Remedies

The remedies available to the Trustee and the Owners of the Certificates upon an event of default under the Trust Agreement, the Installment Purchase Agreement 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 Certificates will be qualified to the extent that the enforceability of certain legal rights related to the Trust Agreement and Installment Purchase Agreement 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 Installment Purchase Agreement and certain other legal matters are subject to the approval of Garcia Calderon Ruiz, LLP, San Diego, California, acting as Co-Special Counsel. The legality and enforceability of the Installment Sale Agreement and certain other legal matters are subject to the approval of Garcia Calderon Ruiz, LLP, San Diego, California, acting as Special Counsel. The legal opinion of Special Counsel will be subject to the effect of bankruptcy, insolvency, moratorium and other similar laws affecting creditors’ rights and limitations on remedies against public entities such as the District, and to the exercise of judicial discretion in accordance with general principles of equity. See “APPENDIX E” for the proposed form of Special Counsel’s Opinion.

Certain legal matters will be passed on for the District by its General Counsel, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. Fees payable to Co-Special Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Certificates.

The District has no knowledge of any fact or other information which would indicate that the Trust Agreement or the Installment Purchase Agreement are not so enforceable against the District, as applicable, 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.

Tax Matters

In the opinion of Garcia Calderon Ruiz, LLP, San Diego, California, and Sidley Austin LLP, San Francisco, California (collectively, Co-Special Counsel), based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the Trust Agreement and the Tax Certificate executed with respect to the Certificates and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the Certificates and the timely payment of certain investment earnings to the United States, the portion of each Installment Payment due under the Installment Payment Agreement designated as and comprising interest with respect to the Certificates is not includable in the gross income of the holders of the Certificates for federal income tax purposes. Failure to comply with such covenants and requirements may cause the portion of each Installment Payment due under the Installment Payment Agreement designated as and comprising interest with respect to the Certificates to be included in gross income retroactively to the date of execution and delivery of the Certificates.

In the further opinion of Co-Special Counsel, the portion of each Installment Payment due under the Installment Purchase Agreement designated as and comprising interest with respect to the Certificates is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. The portion of each Installment Payment due under the Installment Purchase Agreement designated as and comprising interest with respect to the Certificates, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

Ownership of, or the receipt of interest on or with respect to, tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Co-Special Counsel express no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Certificates should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Trust Agreement and other documents pertaining to the Certificates may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Co-Special Counsel express no opinion as to the exclusion from gross income for federal income tax purposes of the portion of each Installment Payment due under the Installment Purchase Agreement designated as and comprising interest with respect to the Certificates on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Co-Special Counsel.

Legislation affecting municipal obligations is continually being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Certificates will not have an adverse effect on the tax-exempt status of the Certificates. Legislation or regulatory actions and proposals may also affect the economic value of tax exemption or the market price of the Certificates.

The Tax Increase Prevention and Reconciliation Act of 2005, enacted on May 17, 2006, contains a provision under which interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although the new reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest on the Certificates, to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer

identification number) in the required manner or have been identified by the Internal Revenue Service (the "IRS") as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's federal income tax liability provided the required information is furnished to the IRS.

Original Issue Discount. The initial public offering price of certain of the Certificates (collectively, the "Discount Certificates") may be less than the principal amount of the Discount Certificates. The difference between the principal amount of a Discount Certificate and its initial public offering price is original issue discount. Original issue discount on a Discount Certificate accrues over the term of such Discount Certificate at a constant interest rate. To the extent it has accrued, original issue discount on a Discount Certificate is treated as interest excludable from gross income for federal income tax purposes under the conditions and limitations described above. The amount of original issue discount that accrues on a Discount Certificate in each year is not an item of tax preference for purposes of calculating federal alternative minimum taxable income, but is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. Additionally, such accrued original issue discount is taken into account in determining the distribution requirements of certain regulated investment companies. Consequently, owners of Discount Certificates should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner may not have received cash in such year.

The accrual of original issue discount on a Discount Certificate will increase the owner's adjusted basis in such Discount Certificate. This will affect the amount of taxable gain or loss realized by the owner of the Discount Certificate upon the redemption, sale or other disposition of such Discount Certificate. The effect of the accrual of original issue discount on the federal income tax consequences of a redemption, sale or other disposition of a Discount Certificate that is not purchased at the initial public offering price may be determined according to rules that differ from those described above. Owners of Discount Certificates should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of original issue discount that properly accrues with respect to the Discount Certificates, other federal income tax consequences of owning and disposing of the Discount Certificates and any state and local tax consequences of owning and disposing of the Discount Certificates.

Premium Certificates. Certain of the Certificates may be purchased in the initial offering for an amount in excess of their principal amount (hereinafter, the "Premium Certificates"). The excess of the tax basis of a purchaser of a Premium Certificate (other than a purchaser who holds a Premium Certificate as inventory, stock in trade or for sale to customers in the ordinary course of business) over the principal amount of such Premium Certificate is "bond premium." Bond premium is amortized for federal income tax purposes over the term of a Premium Certificate based on the purchaser's yield to maturity in the Premium Certificate, except that in the case of a Premium Certificate callable prior to its stated maturity, the amortization period and the yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Premium Certificate. A purchaser of a Premium Certificate is required to decrease his or her adjusted basis in such Premium Certificate by the amount of bond premium attributable to each taxable year in which such purchaser holds such Premium Certificate. The amount of bond premium attributable to a taxable year is not deductible for federal income tax purposes. Purchasers of Premium Certificates should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of bond premium attributable to each taxable year and the effect of bond premium on the sale or other disposition of a Premium Certificate, and with respect to the state and local tax consequences of owning and disposing of a Premium Certificate.

In the further opinion of Co-Special Counsel, interest on the Certificates is exempt from personal income taxes imposed by the State of California.

A copy of the proposed form of opinion of Co-Special Counsel is attached hereto as Appendix E.

Absence of Litigation

The District will furnish a certificate dated as of the date of delivery of the Certificates that there is not now known to be pending or threatened any litigation restraining or enjoining the execution or delivery of the Trust Agreement, the Installment Purchase Agreement or the sale or delivery of the Certificates or in any manner questioning the proceedings and authority under which the Trust Agreement and the Installment Purchase Agreement are to be executed or delivered or the Certificates 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 make Installment Payments.

CONCLUDING INFORMATION

Ratings on the Certificates

Standard and Poor's and Fitch have assigned their ratings of "___" and "___," respectively, to the Certificates with the understanding that a financial guaranty insurance policy (the "Policy") insuring payment when due of the principal of and interest on the Certificates will be issued on the closing date by _____. Standard & Poor's and Fitch have assigned their ratings of "___" and "___", respectively, to the Certificates without respect to the delivery by _____ of the Policy. Such rating reflects only the views of the rating agencies and any desired explanation of the significance of such rating should be obtained from the rating agencies. 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 such 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 such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Certificates.

Underwriting

The Certificates were sold to _____ (the "Underwriter") at competitive sale, who is offering the Certificates at the 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 Certificates at a price equal to \$ _____, which amount represents the principal amount of the Certificates, plus net original issue premium of \$ _____ and less an Underwriter's discount of \$ _____. The Underwriter will pay certain of its expenses relating to the offering.

The Financial Advisor

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

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, 2008 and to provide the audited General Purpose Financial Statements of the District for the fiscal year ending June 30, 2007 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 if deemed by the District to be material. The Annual Report will be filed by the Trustee on behalf of the District with each Nationally Recognized Municipal Securities Information Repository certified by the Securities and Exchange Commission (the "Repositories") and a State repository, if any, and may also be obtained from the Trustee. The notices of material events will be timely filed by the District with the Municipal Securities Rulemaking Board and the State repository, if any. 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 set forth in "APPENDIX D - FORM OF CONTINUING DISCLOSURE AGREEMENT."

The District has entered into two previous undertakings with respect to its 1998 General Obligation Bonds and the 2004 Certificates to provide continuing disclosure pursuant to Rule 15c2-12. Prior to 2004, the District had not timely filed all of the information required by this undertaking for the 1998 General Obligation Bonds, however the District has been current with all filing requirements since 2004.

Additional Information

The summaries and references contained herein with respect to the Trust Agreement, the Installment Purchase Agreement, the Assignment Agreement, the Certificates, statutes and other documents, do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute and references to the Certificates are qualified in their entirety by reference to the form thereof included in the Trust Agreement. Definitions of certain terms used herein are set forth in "APPENDIX A." Copies of the Trust Agreement, the Installment Purchase Agreement and the Assignment Agreement, are available for inspection during the period of initial offering on the Certificates at the offices of the Financial Advisor. Copies of these documents may be obtained after delivery of the Certificates from the District, 2554 Sweetwater Springs Blvd., Spring Valley, California 91978.

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 Certificates.

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 THE LEGAL DOCUMENTS

APPENDIX B
DISTRICT AUDITED FINANCIAL STATEMENTS

APPENDIX C

ECONOMIC PROFILE FOR COUNTY OF SAN DIEGO

Introduction

The County of San Diego 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.

Topography of the County varies from broad coastal plains and fertile inland valleys to mountain ranges in the east which rise to an elevation of 6,500 feet. Eastern slopes of these mountains form the rim of the Anza-Borrego Desert and the Imperial Valley. The Cleveland National Forest occupies much of the interior portion of the county. The climate is equable in the coastal and valley regions where most of the population and resources are located. Average annual rainfall in the coastal areas is approximately 10 inches.

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 which contributes approximately \$10 billion into the retail and service businesses of the area.

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.

In addition to the City of San Diego, other principal cities in the County include Carlsbad, Chula Vista, Oceanside, El Cajon, Escondido, La Mesa and National City. Most County residents live within 20 miles of the coast. Farther inland are agricultural areas, principally planted in avocados and tomatoes, while the easternmost portion of the County has a dry, desert-like topography.

County Government

The County was incorporated on February 18, 1850 and functions under a charter adopted in 1933, as subsequently amended from time to time. The County is governed by a five-member Board of Supervisors elected to four-year terms in district nonpartisan elections. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. Elected officials include the Assessor, County Clerk, District Attorney, Recorder, Sheriff and Treasurer/Tax Collector.

Population

The County has experienced rapid growth and development in the past decade. It has become the nineteenth most populous metropolitan area in the United States. The City of San Diego is the sixth most populous city in the United States. Total population for the County is expected to be over 3.63 million by the year 2015.

The following table shows the January 1 State of California Department of Finance estimates of total population in the San Diego region for each year since 1995, and the increase from the previous year.

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

<u>Growth Year</u>	<u>County</u>	<u>Growth Rate</u>	<u>State</u>	<u>Growth Rate</u>
1995	2,613,100	-----	31,617,000	-----
1996	2,621,100	0.3%	31,837,000	0.7%
1997	2,653,400	1.2%	32,207,000	1.2%
1998	2,702,800	1.9%	32,657,000	1.4%
1999	2,751,000	1.8%	33,140,000	1.5%
2000	2,805,900	2.0%	33,753,000	1.8%
2001	2,864,462	2.1%	34,441,561	2.0%
2002	2,921,390	2.0%	35,088,671	1.9%
2003	2,972,932	1.8%	35,691,472	1.7%
2004	3,011,244	1.3%	36,245,016	1.6%
2005	3,039,277	0.9%	36,728,196	1.3%
2006	3,066,820	0.9%	37,172,015	1.2%
Overall increase since 1995		17.0%		16.8%

Source: California State Department of Finance.

Income

“Effective Buying Income,” also referred to as “disposable” or “after-tax” income, consists of personal income less personal tax and certain non-tax payments. Personal income includes wages and salaries, other labor-related income (such as employer contributions to private pension funds), and certain other income (e.g., proprietor’s income; rental income; dividends and interest; pensions; and welfare assistance). Deducted from this total are personal taxes (federal, state and local), certain non-tax payments (e.g., fines, fees and penalties), and personal contributions to a retirement program.

The following table shows the median household Effective Buying Income for the County, the State and the United States between calendar years 1998 and 2004.

**TABLE NO. C-2
MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME
CALENDAR YEARS 1998 THROUGH 2002**

	<u>County of San Diego</u>	<u>State of California</u>	<u>United States</u>
1998	\$36,296	\$37,091	\$35,377
1999	39,213	39,492	37,223
2000	44,292	44,464	39,129
2001	44,146	43,532	38,365
2002	42,315	42,484	38,035
2003	43,346	42,924	38,201
2004	44,506	43,915	39,324

Source: Sales & Marketing Management Magazine “Survey of Buying Power.”

Employment

**TABLE NO. C-3
COUNTY OF SAN DIEGO, CALIFORNIA, AND UNITED STATES
LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT**

<u>Year and Area</u>	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
2001				
San Diego	1,409,200	1,350,300	58,900	4.2
California	17,152,100	16,220,000	932,100	5.4
United States	143,734,000	136,933,000	6,801,000	4.7
2002				
San Diego	1,448,500	1,374,000	74,500	5.1
California	17,330,700	16,168,200	1,162,500	6.7
United States	144,863,000	136,485,000	8,378,000	5.8
2003				
San Diego	1,468,000	1,391,600	76,400	5.2
California	17,403,900	16,212,600	1,191,300	6.8
United States	146,510,000	137,736,000	8,774,000	6.0
2004				
San Diego	1,489,200	1,418,500	70,700	4.7
California	17,499,600	16,407,900	1,091,700	6.2
United States	147,401,000	139,252,000	8,149,000	5.5
2005				
San Diego	1,505,200	1,440,500	64,700	4.3
California	17,695,600	16,746,900	948,700	5.4
United States	149,320,000	141,730,000	7,591,000	5.1

⁽¹⁾ The unemployment rate is calculated using unrounded data. March 2005 Benchmark; data not seasonably adjusted.

Source: State of California Employment Development Department, Labor Market Information Division and United States Department of Labor, Bureau of Labor Statistics.

The District is located in the San Diego-Carlsbad-San Marcos Metropolitan Statistical Area (MSA). Six major job categories constitute 77.3% of the work force. They are government (16.7%), professional and business services (16.4%), service producing (15.0%), leisure and hospitality (11.8%), educational and health services (9.6%), and manufacturing (7.8%). The November 2006 unemployment rate in the San Diego-Carlsbad-San Marcos MSA was 3.9%. The State of California November 2006 unemployment rate (unadjusted) was 4.5%.

TABLE NO. C-4
SAN DIEGO-CARLSBAD-SAN MARCOS MSA
WAGE AND SALARY WORKERS BY INDUSTRY ⁽¹⁾
(in thousands)

Industry	2002	2003	2004	2005	2006
Government	222.8	216.7	217.2	217.2	220.2
Other Services	45.9	46.4	48.2	48.3	50.6
Leisure and Hospitality	135.8	142.1	144.4	152.2	155.9
Educational and Health Services	121.1	123.1	122.3	124.7	126.7
Professional and Business Services	204.0	203.0	206.6	211.3	216.4
Financial Activities	77.3	80.6	82.5	83.8	82.8
Information	38.3	36.6	37.1	37.1	37.0
Transportation, Warehousing and Utilities	27.4	28.0	29.1	28.7	29.5
Service Producing					
Retail Trade	143.6	147.2	152.0	151.6	151.9
Wholesale Trade	41.6	41.9	42.4	44.6	46.0
Manufacturing					
Nondurable Goods	27.0	26.2	25.7	25.3	25.1
Durable Goods	82.6	78.0	78.9	78.1	77.9
Goods Producing					
Construction	77.8	82.3	90.0	94.1	91.0
Natural Resources and Mining	<u>0.3</u>	<u>0.4</u>	<u>0.4</u>	<u>0.5</u>	<u>0.4</u>
Total Nonfarm	1,245.5	1,252.5	1,276.8	1,297.5	1,311.4
Farm	<u>11.3</u>	<u>11.1</u>	<u>10.8</u>	<u>10.5</u>	<u>10.1</u>
Total (all industries)	<u>1,256.8</u>	<u>1,263.6</u>	<u>1,287.6</u>	<u>1,308.0</u>	<u>1,321.5</u>

⁽¹⁾ Annually, as of November 2006. March 2005 Benchmark.

Source: State of California Employment Development Department, Labor Market Information Division.

Construction

Annual total building permit valuation and unit volume in the County since 2002 are shown below.

TABLE NO. C-5
COUNTY OF SAN DIEGO
BUILDING PERMIT VALUATIONS
(in thousands)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Residential Construction Permits	15,738	18,314	17,306		
Non-Residential Construction	486	446	527		
Total Valuation	4,643,974	4,853,204	5,163,489		

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 area 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. A West Terminal was completed in mid-1979, approximately doubling terminal capacity. 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. Construction of a major campus of the University of California at San Diego (UCSD) in 1964 gave significant impetus to this development.

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 UCSD, other established research institutions in the La Jolla area of the City 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 Wild Animal 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

APPENDIX E
PROPOSED FORM OF LEGAL OPINION OF
CO-SPECIAL COUNSEL

APPENDIX F
MUNICIPAL BOND INSURANCE POLICY

APPENDIX G

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances 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 Certificates, (b) Certificates representing ownership interest in or other confirmation or ownership interest in the Certificates, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, 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 Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC,") New York, NY, will act as securities depository for the Certificates. The Certificates 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 Certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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 2.2 million issues of U.S. and non-U.S. equity, 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 wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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 Standard & Poor's highest rating: AAA. 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 and www.dtc.org.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("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 Certificates 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 Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates 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 Certificates 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 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates 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.

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 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates 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.

Prepayment notices shall be sent to DTC. If less than all of the Certificates within an issue are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be prepaid.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District (or the Trustee on behalf thereof) 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, prepayment price, and interest payments with respect to the Certificates 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 the District or Trustee, on the 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, nor its nominee, Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, prepayment price, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Trustee, 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.

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

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Certificates will be printed and delivered to DTC.

OFFICIAL NOTICE OF SALE**\$42,000,000*****OTAY WATER DISTRICT
REVENUE CERTIFICATES OF PARTICIPATION
(2007 WATER SYSTEM PROJECT), SERIES 2007**

NOTICE IS HEREBY GIVEN that electronic bids for the purchase of \$42,000,000* aggregate principal amount of the Otay Water District Revenue Certificates of Participation (2007 Water System Project), Series 2007 (the "Certificates" herein) will be received by a representative of the Otay Water District, Spring Valley, California (herein the "District") in the manner and up to the time specified below.

All bids must be submitted electronically via PARITY[®] on Wednesday, February 21, 2007, up until 9:30 a.m. (Pacific Standard Time) (see "BIDDING DETAILS" herein). No bid will be received after such time. To the extent any instructions or directions set forth in PARITY[®] conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further information about PARITY[®], potential bidders may contact i-Deal at 1359 Broadway, 2nd Floor, New York, NY 10018, telephone (212) 849-5021.

No bid check is required.

Neither the District, the Financial Advisor nor Co-Special Counsel (defined below) is responsible for, and each bidder expressly assumes risk of, any incomplete, inaccurate or untimely bid submitted by Internet transmission by such bidder, including, without limitation, by reason of garbled transmissions, mechanical failure, engaged telephone or telecommunications lines, or any other cause arising from delivery by Internet transmission.

Any change in the terms of the sale or the date and time for the receipt of bids will be communicated through TM3. Failure by the District to announce any such change on any particular information or news service, or the failure of any such information or news service to publish such change, does not affect the validity of such change and therefore bidders are responsible for and should check all sources.

OFFICIAL STATEMENT: The District has caused a preliminary official statement to be prepared relating to the Certificates (the "Preliminary Official Statement"), copies of which may be obtained at the office of the District's Financial Advisor, Harrell & Company Advisors, LLC, 333 City Boulevard West, Suite 1430, Orange, California 92868, telephone (714) 939-1464. The Preliminary Official Statement may also be viewed on the i-Deal Prospectus website at "www.i-DealProspectus.com." The Preliminary Official Statement is in a form deemed final by the District for the purposes of SEC Rule 15c2-12(b)(1), but is subject to revision, amendment and completion in a final official statement (the "Official Statement"). The District will furnish the successful bidder with a reasonable number of copies of the final Official Statement within seven (7) business days of award of the Certificates, without charge.

AMENDMENT AND MODIFICATION: The District reserves the right to amend this Official Notice of Sale at least 24 hours prior to the bid submittal time for the Certificates on Wednesday, February 21, 2007, and communicating such amendment through TM3.

POSTPONEMENT: The District reserves the right to postpone, from time to time, the date established for the receipt of bids. Any such postponement will be communicated through TM3 prior to any announced date for receipt of bids. If any date fixed for the receipt of bids and the sale of the Certificates is postponed, any alternative sale date will be announced via TM3 at least 20 hours prior to such alternative sale date. On any such alternative sale date, any bidder may submit a bid for the purchase of the Certificates 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 via TM3.

* Subject to change, see "MATURITIES" herein.

BOOK-ENTRY ONLY: The Certificates will be issued in book-entry form only, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases will be made in the maturities described hereinafter under the caption “THE CERTIFICATES.” Payments of principal and interest to DTC will be made by Union Bank of California, N.A., Los Angeles, California (the “Trustee”) and disbursement of such payments to the beneficial owners is the responsibility of DTC’s direct participants or indirect participants. As of the date of award of the Certificates, the successful bidder must either participate in DTC or must clear through or maintain a custodial relationship with an entity that participates in DTC. The fees and charges of DTC shall be borne by the successful bidder.

THE CERTIFICATES

DATE; DENOMINATION: The Certificates are to be delivered on or about March 7, 2007 (the “Date of Delivery”), in fully registered form in denominations of \$5,000 or any integral multiple thereof, all dated as of the Date of Delivery, in the aggregate principal amount of \$42,000,000*, designated “Otay Water District Revenue Certificates of Participation (2007 Water System Project), Series 2007” and comprising all of the authorized Certificates. Bidders are referred to the Preliminary Official Statement for particulars related to the Certificates.

MATURITIES: The final aggregate principal amount of the Certificates may not exceed \$42,000,000 and the final maturity schedule will be determined following award to the winning bidder. For the purpose of calculating the winning bid for the Certificates, the following maturity schedule shall be used. **Each bidder may specify in its bid whether, for any particular year, the Certificates will be Term Certificates subject to mandatory prepayment in the applicable principal amount set forth below.** The Financial Advisor will promptly recalculate the aggregate principal amount of the Certificates following award to the winning bidder, for the purpose of maintaining level debt service, and the Financial Advisor will promptly inform the successful bidder of any changes. Any increase or decrease in the principal amount of the Certificates will cause a proportionate increase or decrease, as the case may be, in the discount or premium at which the Certificates are sold. By offering a bid for the Certificates, a bidder will be obligated, if it is the successful bidder, to purchase the Certificates with any such changes.

MATURITY SCHEDULE

<u>Maturity Date</u> <u>September 1</u>	<u>Principal</u> <u>Amount*</u>	<u>Maturity Date</u> <u>September 1</u>	<u>Principal</u> <u>Amount*</u>	<u>Maturity Date</u> <u>September 1</u>	<u>Principal</u> <u>Amount*</u>
2007		2017		2027	
2008		2018		2028	
2009		2019		2029	
2010		2020		2030	
2011		2021		2031	
2012		2022		2032	
2013		2023		2033	
2014		2024		2034	
2015		2025		2035	
2016		2026		2036	

INTEREST: The Certificates will bear interest (computed on the basis of a 360-day year of twelve 30-day months) from their date at the rate or rates to be fixed upon the sale thereof, but not to exceed 6% per annum. Interest with respect to a Certificate will be paid March 1 and September 1 commencing September 1, 2007 (each, an “Interest Payment Date”).

* Subject to change, see “MATURITIES” herein.

PAYMENT: Interest and principal with respect to the Certificates will be payable when due by wire of the Trustee to DTC which will in turn remit such interest and principal to DTC Participants (see “BOOK-ENTRY ONLY” herein). If the book-entry only system is discontinued, interest and principal will be paid as described in the Preliminary Official Statement.

PURPOSE: The Certificates are being executed and delivered to provide funds for the construction of certain storage and distribution facilities of the District, to provide for a reserve fund for the Certificates and to pay the costs incurred in connection with the execution and delivery of the Certificates, all as more fully described in the Preliminary Official Statement.

SECURITY: The Certificates are being executed and delivered under a 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, and a resolution adopted by the Board of Directors of the District authorizing the execution, sale and delivery thereof. The Certificates represent undivided proportionate interests in the installment payments (the “Installment Payments”) to be made by the District to the Corporation as payment for certain real property and improvements, as more fully described in the Preliminary Official Statement, pursuant to an Installment Purchase Agreement dated as of March 1, 2007, between the Corporation, as Seller, and the District, as Purchaser, certain funds held under the Trust Agreement and investment earnings thereon, and from net proceeds of insurance or condemnation awards, all as more fully described in the Preliminary Official Statement. The Corporation has assigned to the Trustee, for the benefit of the Owners of the Certificates, the right of the Corporation to receive and collect the Installment Payments due from the District to the Corporation under the Installment Purchase Agreement and other amounts payable by the District to the Corporation pursuant to the Assignment Agreement dated as of March 1, 2007 by and between the Corporation and the Trustee (the “Assignment Agreement”).

In general, Installment Payments will be sufficient in both time and amount to pay, when due, the principal and interest payable with respect to the Certificates all as more fully described in the Preliminary Official Statement. The Installment Payments are secured by a charge and lien on Taxes and Revenues of the Water System and are payable from Taxes and Net Revenues, all as more fully described in the Preliminary Official Statement.

The obligation of the District to pay Installment Payments does not constitute an obligation 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. The obligation of the District to pay Installment Payments does not constitute a debt or liability of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Bidders are referred to the Preliminary Official Statement for further particulars.

MUNICIPAL BOND INSURANCE: The District received a commitment from _____ for municipal bond insurance with respect to the Certificates. The District will directly purchase such insurance.

OPTIONAL PREPAYMENT: The Certificates maturing on or before September 1, 2016 are not subject to prepayment prior to maturity. The Certificates maturing on or after September 1, 2017 are subject to prepayment prior to maturity at the option of the District, on any date on or after September 1, 2016, as a whole or in part among maturities designated by the District and by lot within a maturity, from any source of available funds at a prepayment price equal to 100% of the principal amount thereof to be prepaid, without a premium, together with accrued interest thereon to the date fixed for prepayment.

MANDATORY SINKING ACCOUNT PREPAYMENT: Any Certificates designated by the successful bidder as Term Certificates will also be subject to prepayment in part by lot, on September 1 in each year from sinking account payments, at a prepayment price equal to the principal amount thereof to be prepaid, without premium; provided, however, that if some but not all of the Term Certificates have been prepaid pursuant to an optional or special mandatory prepayment, the total amount of all future payments will be reduced by the aggregate principal amount of Term Certificates so prepaid, in integral multiples of \$5,000. In addition, in lieu of prepayment thereof, the Term Certificates may be purchased by the District and tendered to the Trustee pursuant to the provisions of the Trust Agreement. See caption “MATURITIES” above for bidders’ option with respect to Term Certificates and mandatory prepayment.

SPECIAL MANDATORY PREPAYMENT: The Certificates are subject to mandatory prepayment as a whole or in part, on any date, from net hazard or title insurance proceeds not used to repair or replace any portion of the 2007 Project, as described in the Preliminary Official Statement, damaged or destroyed, or from condemnation proceeds received with respect to any portion of the 2007 Project and elected by the District to be used for such purpose, pro-rata among maturities, at a prepayment price equal to the principal amount of the Certificates to be prepaid, plus accrued interest thereon to the date fixed for prepayment, without premium, all as more fully described in the Preliminary Official Statement.

TERMS OF SALE

STATED INTEREST RATE: The stated interest rate bid for any maturity of Certificates may not exceed 6% per annum. Bidders must specify the rate of interest which is payable with respect to the Certificates strictly in accordance with the following conditions:

- (i) Each interest rate specified in any bid must be in a multiple of 1/20 of 1% or 1/8 of 1% per annum;
- (ii) No Certificate is payable at more than one rate of interest;
- (iii) Interest with respect to each Certificate is computed from its date to its stated maturity date at the interest rate specified in the bid;
- (iv) All Certificates maturing at any one time are payable at the same rate of interest;
- (v) Any premium must be paid as part of the purchase price, and no bid will be accepted which contemplates the cancellation or the waiver of any interest or other concession by the bidder as a substitute for payment in full of the purchase price; and
- (vi) The interest rate bid with respect to any maturity of the Certificates shall be equal to or greater than the interest rate with respect to each preceding maturity of the Certificates.

DISCOUNT: Bidders may specify a discount or premium. The discount shall not exceed 1 ½% of the principal amount of the Certificates. The premium shall not exceed 3% of the principal amount of the Certificates.

AWARD: The Certificates will be sold for cash or Federal Reserve Bank Funds only. All bids must be for not less than all of the Certificates hereby offered for sale and each bid shall state the total price offered for the Certificates, the premium, or the discount, if any, and the interest rate or rates (which shall not exceed those specified herein) at which the bidder offers to buy the Certificates.

WINNING BIDDER; TRUE INTEREST COST: The Certificates will be awarded to the responsible bidder whose bid produces the lowest true interest cost on the Certificates, subject to the right to reject certain bids as described below under "RIGHT OF REJECTION." The true interest cost specified in any bid will be that cost, which, when used in computing the present value of all payments of principal and interest on all Certificates from the Date of Delivery, to their respective maturity dates, produces an amount equal to the purchase price specified in such bid. For purposes of computing the true interest cost represented by any bid, the purchase price specified in such proposal shall be equal to the par amount of the Certificates less any discount specified in such bid or plus any premium specified in such bid, and the true interest cost shall be calculated by the use of a semiannual interval of compounding interest based on the Interest Payment Dates of the Certificates. If two or more bidders have bid the same lowest true interest cost to the District, the award shall be made to the first bid received.

RIGHT OF REJECTION: The District reserves the right, in its discretion, to reject any and all bids and, to the extent not prohibited by law, to waive any irregularity or informality in any bid.

PROMPT AWARD: The District will take action awarding the Certificates or rejecting all bids not later than twenty-four (24) hours after the expiration of the time herein prescribed for the receipt of bids; provided that the award may be made after the expiration of the specified time if the bidder has not given the District notice in writing of the withdrawal of its bid.

DELIVERY OF OFFICIAL STATEMENT: The District will furnish the successful bidder with a reasonable number of copies of the final Official Statement within 7 business days after award of the Certificates, without charge.

PLACE OF DELIVERY: Delivery of the Certificates will be made to the successful bidder through DTC in New York, New York, or at any other place agreeable to both the District and the successful bidder. Payment for the Certificates shall be made in cash or Federal Reserve Bank funds which are immediately available to the District.

PROMPT DELIVERY; CANCELLATION FOR LATE DELIVERY: It is expected that the Certificates will be delivered to the successful bidder on or about March 7, 2007. The successful bidder has the right, at its option, to cancel the contract of purchase if the District fails to execute the Certificates and tender them for delivery within 60 days from the date of sale thereof.

LIST ACCOUNT MEMBERS: Bidders are requested to list the members of the bidding group on whose behalf the bid is made.

BIDDING DETAILS: All bids must be unconditional and submitted via PARITY®. No facsimile, personal delivery bids or bids delivered by any other method will be accepted. All costs and expenses incurred by prospective bidders in connection with their submission for bids through PARITY® are the sole responsibility of the bidder and the District is not responsible for such costs or expenses. Further information about PARITY®, including any fee charged may be obtained from PARITY®, 1359 Broadway, 2nd Floor, New York, NY 10018 (212) 849-5021.

VERIFICATION: All bids are subject to verification and approval by the District. The District has the right to deem each final bid reported by PARITY® immediately after the deadline for receipt of bids to be accurate and binding on the bidder. Information or calculations provided by PARITY® other than the information required to be provided by the bidder in accordance with this Official Notice of Sale is for information purposes only and is not binding on either the bidder or the District. If two or more bidders offer bids for the Certificates at the same lowest true interest cost, the winning bid shall be the first bid received in the determination of the District whose determination is final.

CONFIRMATION OF BIDS: The successful bidder for the Certificates must deliver a certificate confirming the terms of its bid to the District within one hour after the bidding deadline. The certificate may be sent via PARITY®.

CHANGE IN TAX-EXEMPT STATUS: At any time before the Certificates are tendered for delivery, the successful bidder may disaffirm and withdraw the proposal if interest received by private owners from securities of the same type and character as the Certificates is declared to be includable in gross income under present federal income tax laws in a manner not described in the section "LEGAL MATTERS - Tax Exemption" in the Preliminary Official Statement, either by a ruling of the Internal Revenue Service or by a decision of any federal court, or is declared includable in gross income or is required to be taken into account in computing personal federal income taxes by the terms of any federal income tax law enacted subsequent to the date of this notice.

CLOSING PAPERS: Each proposal will be understood to be conditioned upon the District furnishing to the successful bidder, without charge, concurrently with payment for and delivery of the Certificates, the following closing papers, each dated the date of delivery:

- (a) **Legal Opinion.** The legal opinion of Garcia Calderon Ruiz, LLP, San Diego, California, and Sidley Austin LLP, San Francisco, California (collectively, "Co-Special Counsel," approving the validity of the Certificates and the Trust Agreement and stating that interest due with respect to the Certificates is excluded from gross income for federal income tax purposes of the United States of America under existing law (see Preliminary Official Statement for a description of certain qualifications with respect to taxes on corporations and others), and that such interest is also exempt from personal income taxes of the State of California under existing law, will be furnished the successful bidder at the time of delivery of the Certificates, at the expense of the District.

(b) **No Arbitrage Certificate.** A Certificate of the District certifying that on the basis of the facts, estimates and circumstances in existence on the Date of Delivery, it is not expected that the proceeds of the Certificates will be used in a manner that would cause the Certificates to be arbitrage bonds.

(c) **No Litigation Certificate.** At the time of payment for and delivery of the Certificates, the District will furnish the successful bidder a Certificate that there is no litigation pending affecting the validity of the Trust Agreement or the Certificates.

(d) **Certificate Concerning Official Statement.** A Certificate of the District, signed by an appropriate officer, acting in his or her official capacity, to the effect that to the best of such officer's knowledge and belief, and after reasonable investigation: (1) neither the Official Statement nor any amendment or supplement thereto contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; (2) since the date of the Official Statement no event has occurred which should have been set forth in an amendment or supplement to the Official Statement which has not been set forth in such an amendment or supplement which would make the statements therein, in light of the circumstances in which they were made misleading; nor (3) has there been any material adverse change in the operation or financial affairs of the District since the date of such Official Statement.

DISCLOSURE LETTER: A disclosure letter with respect to the Official Statement will be provided to the successful bidder by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Disclosure Counsel.

CONTINUING DISCLOSURE: In order to assist bidders in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"), the District has committed to undertake, pursuant to the Trust Agreement and a Continuing Disclosure Agreement, to provide certain annual financial information and notices of the occurrence of certain events, if material. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement. Such Continuing Disclosure Agreement is a document required to be delivered at closing by the District, and the failure by the District to deliver such document in form and substance acceptable to Disclosure Counsel and the successful bidder will relieve the successful bidder of its obligation to purchase the Certificates. Prior to 2004, the District did not comply with its filing obligations under the Rule with respect to its Improvement District No. 27 1998 General Obligation Refunding Bonds. Since 2004, the District has complied with all of its filing obligations under the Rule.

CUSIP NUMBERS: CUSIP identification numbers will be requested by the District and will be printed on the Certificates. All expenses in relation to the printing of CUSIP numbers on the Certificates shall be paid for by the District; provided, however, that the CUSIP Service Bureau charge for the assignment of said numbers are the responsibility of and shall be paid for by the purchaser. The Trustee and the District are not liable for any defect or inaccuracy in the CUSIP number that appears on any Certificate or in any redemption notice.

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION FEE: Attention of bidders is directed to California Government Code Section 8856, which provides that the purchaser of the Certificates will be charged for the California Debt and Investment Advisory Commission fee relating to the Certificates.

PURCHASER'S CERTIFICATE: On the date of delivery of the Certificates, the successful bidder will be required to furnish a certificate in a form satisfactory to Co-Special Counsel certifying the price or prices at which the Certificates were reoffered to the public and the price or prices at which a substantial amount of the Certificates were sold.

GIVEN by order of the Otay Water District made on February 7, 2007.

By: /s/ Joseph R. Beachem
Chief Financial Officer



AGENDA ITEM 8

STAFF REPORT

TYPE MEETING:	Regular Board Meeting	MEETING DATE:	February 7, 2007
SUBMITTED BY:	Joseph R. Beachem, <i>[Signature]</i> Chief Financial Officer	W.O./G.F. NO:	DIV. NO. All
APPROVED BY: (Chief)	<i>[Signature]</i> FOR G.A.		
APPROVED BY: (Asst. GM):	German Alvarez, Assistant General Manager		
SUBJECT:	Adopt Resolution No. 1005 Approving Sale of the Certificates of Participation (COPs)		

EXECUTIVE DIRECTOR'S RECOMMENDATION:

That the Otay Service Corporation Board adopt Resolution No.1005 authorizing the execution and delivery of Revenue Certificates of Participation (2007 Water System Project), Series 2007 (COPs) in principal amount not to exceed \$42,000,000 for the purpose of financing a portion of the District's 6-year Capital Improvement Program and authorizing the Executive Director and Chief Financial Officer to execute documents in connection therewith.

COMMITTEE ACTION: _____

Please see Attachment A.

PURPOSE:

To present for the Corporation Board's consideration the adoption of Resolution No. 1005 authorizing the execution and delivery of Revenue Certificates of Participation (2007 Water System Project), Series 2007 (COPs) in principal amount not to exceed \$42,000,000 for the purpose of financing a portion of the District's 6-year Capital Improvement Program and authorizing the Executive Director and Chief Financial Officer to execute documents in connection therewith.

ANALYSIS:

In December 2006, the District's Board was presented with a Financing Plan Update detailing the plans for the issuance of approximately \$42 million of COPs as part of the funding of the current 6-Year CIP Budget. In January 2007, the District's Board held a public hearing and implemented the current planned

rate increase as part of this comprehensive financing plan for the CIP. The COPs are expected to be issued in March 2007.

In preparation for the issuance of the COPs, the Corporation's Board has been presented with forms of the following financing documents:

- Trust Agreement by and among the District, the Corporation and Union Bank of California (the "Trustee");
- Installment Purchase Agreement by and between the District and the Corporation; and
- Assignment Agreement by and between the Corporation and the Trustee.

The resolution provides the designated Corporation officials and staff with the authorization to execute and deliver the COPs and execute the various financing documents in connection with the COPs.

The District has also been presented with a resolution authorizing the execution and delivery of the COPs and the execution of the various financing documents in connection with the COPs, and providing that the COPs may be issued in a maximum amount not-to-exceed \$42,000,000 at a true interest cost not-to-exceed 6%. Currently, the estimated true interest cost is 4.6%, but the final rates will not be determined until the COPs are actually offered for sale on February 21, 2007.

FISCAL IMPACT: _____

The sale of the COPs will provide debt funding for a portion of the District's 6-Year CIP, while maintaining operating and capital reserve levels in accordance with the Board's Reserve Policy. The COPs will have a 30 year maturity. At the estimated true interest cost of 4.6%, the annual debt service on the COPs is projected to be approximately \$2,600,000.

STRATEGIC GOAL:

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

LEGAL IMPACT: _____

None.


Executive Director

Attachments:

- A) Committee Action Form
- B) Resolution 1005
- C) Trust Agreement
- D) Install Purchase Agreement
- E) Assignment Agreement



ATTACHMENT A

SUBJECT/PROJECT:	Informational Item on the Progress on the Bond Sale Efforts
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COMMITTEE ACTION:

The Finance and Administration and Communications Committees reviewed this item at a meeting held on January 24, 2007. The following comments were made:

- Staff will be presenting at the February board meeting the board resolution for the board's approval to issue the debt along with the bond documents.
- Staff updated the committee on its meetings with the rating agencies Standard and Poor's (January 23rd) and Fitch (January 24th). Staff indicated that their presentation to the rating agencies on the District included an overview of the Strategic Plan, Integrated Water Resources Master Plan, Rate Model, Board Policies, Information Technology Systems, major projects, etc. The rating agencies will then utilize the information to determine the financial soundness of the District (rating).
- It was discussed that the rating agencies cost will be paid out of the bond issuance and the fee will be around \$20,000 to \$23,000.
- It was noted that it was important for board members to read the "Preliminary Official Statement." The board should focus on the description of the District, its service area, water supply, and the District's projects for accuracy.
- The final sale of the bonds is expected around the end of February 2007.

Upon completion of the discussion, the Committee supported staff's recommendation and forwarding this to the Board of Directors as an action item.

RESOLUTION NO. 1005

RESOLUTION OF THE BOARD OF DIRECTORS OF THE OTAY SERVICE CORPORATION AUTHORIZING THE EXECUTION AND DELIVERY OF OTAY WATER DISTRICT REVENUE CERTIFICATES OF PARTICIPATION, APPROVING THE FORMS AND AUTHORIZING THE EXECUTION AND DELIVERY OF AN INSTALLMENT PURCHASE AGREEMENT, AN ASSIGNMENT AGREEMENT AND A TRUST AGREEMENT; AND APPROVING AND AUTHORIZING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH

WHEREAS, the Otay Water District, a municipal water district duly formed and existing under and by virtue of the laws of the State of California (the "District"), owns and operates a water system (the "Water System") to provide for the production, acquisition, treatment and distribution of potable and reclaimed water; and

WHEREAS, the District proposes to finance the acquisition and construction of improvements, betterments, renovations, and expansions of certain facilities within its Water System (the "Project"); and

WHEREAS, the Otay Service Corporation (the "Corporation") is a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California formed for the purpose of assisting the District in financing capital improvements such as the Project; and

WHEREAS, the Corporation has agreed to assist the District by acquiring or causing the acquisition of the Project and selling the Project to the District pursuant to the terms of an Installment Purchase Agreement (the "Installment Purchase Agreement"); and

WHEREAS, pursuant to the Installment Purchase Agreement, the District will be obligated to make installment payments (the "Installment Payments") to the Corporation as the purchase price of the Project; and

WHEREAS, pursuant to an Assignment Agreement (the "Assignment Agreement"), the Corporation will assign certain of its rights under the Installment Purchase Agreement, including its rights to receive the Installment Payments to the Union Bank of California, N.A., a national banking association authorized to conduct a trust business, duly organized and existing under the laws of the United States of America, as trustee (the "Trustee"), pursuant to a Trust Agreement (the "Trust Agreement") among the District, the Corporation and the Trustee; and

WHEREAS, pursuant to the Trust Agreement, the Trustee is to execute and deliver the Otay Water District Revenue Certificates of Participation (2007 Water System Project), Series

2006 (the "Certificates") evidencing the proportionate interests of the owners thereof in the Installment Payments; and

WHEREAS, the proceeds of the sale of the Certificates are to be applied, among other things, to the costs of the Project as provided in the Trust Agreement; and

WHEREAS, for this proposed financing, there has been presented to the Corporation the following documents for approval:

1. The Installment Purchase Agreement;
2. The Trust Agreement; and
3. The Assignment Agreement;

WHEREAS, the Installment Purchase Agreement, Trust Agreement, and the Assignment Agreement are necessary to carry out the financing; and

WHEREAS, all acts, conditions and things required by the laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of the transactions authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the Corporation is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such transactions, for the purpose, in the manner and upon the terms herein provided;

NOW, THEREFORE, BE IT RESOLVED, ORDERED AND DETERMINED BY THE BOARD OF DIRECTORS OF THE OTAY SERVICE CORPORATION, AS FOLLOWS:

Section 1. The Board of Directors of the Corporation hereby specifically finds and determines that it is desirable and furthers the Corporation's public purpose to assist the District in the financing of the Project as provided in the Installment Purchase Agreement and the Trust Agreement and that the statements, findings and determinations of the Corporation set forth above and in the preambles of the documents approved herein are true and correct.

Section 2. The Installment Purchase Agreement, the Trust Agreement and the Assignment Agreement (collectively, the "Corporation Agreements"), each in the form presented at this meeting and on file with the Secretary of the Corporation, and the performance by the Corporation of its obligations thereunder are hereby approved. Each of the President, Vice President, Chief Financial Officer, Executive Director or Assistant Chief Financial Officer and their written designees (each, an "Authorized Officer" and collectively, the "Authorized Officers") is hereby authorized and directed, for and in the name and on behalf of the Corporation, to execute and deliver the Corporation Agreements in substantially said form, with such changes therein as such officer executing such document may approve, such approval to be conclusively evidenced by the execution and delivery thereof.

ATTACHMENT B

Section 3. Union Bank of California, N.A. is hereby appointed to act as trustee for the Certificates and the Certificates shall be authenticated and delivered by the Trustee to The Depository Trust Company.

Section 4. Each Authorized Officer is hereby authorized and directed, acting singly, to do any and all things and to execute and deliver any and all documents which they may deem necessary or desirable in order to consummate the transactions authorized hereby and to consummate the sale, execution and delivery of the Certificates and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution, the Corporation Agreements and the Certificates; and all such actions heretofore taken by such officers are hereby ratified, confirmed and approved.

Section 5. This Resolution shall take effect immediately upon its passage.

PASSED, APPROVED AND ADOPTED this 7th day of February, 2007.

Gary Croucher, President

Attest:

Susan Cruz, Secretary

TRUST AGREEMENT

by and among

**UNION BANK OF CALIFORNIA, N.A.,
as Trustee**

and

OTAY SERVICE CORPORATION

and

OTAY WATER DISTRICT

Dated as of _____, 2007

Relating to

**\$42,000,000*
OTAY WATER DISTRICT
REVENUE CERTIFICATES OF PARTICIPATION
(2007 WATER SYSTEM PROJECT), SERIES 2007**

* Preliminary

TRUST AGREEMENT

THIS TRUST AGREEMENT, dated as of _____, 2007 (the "Trust Agreement"), by and among the UNION BANK OF CALIFORNIA, N.A., a national banking association authorized to conduct a trust business duly organized and existing under the laws of the United States of America, as trustee (the "Trustee"), the OTAY SERVICE CORPORATION, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation"), and the OTAY WATER DISTRICT, a municipal water district duly formed and existing under the laws of the State of California (the "District");

WITNESSETH:

WHEREAS, the Corporation is authorized and empowered, among other things, to assist the District in connection with the financing of acquisitions for, and additions, betterments, extensions, replacements and improvements to, its Water System (capitalized terms used herein and not otherwise defined shall have the meanings assigned such terms pursuant to Section 1.01 hereof); and

WHEREAS, in order to provide for the acquisition and construction by the District of the additions, betterments, extensions, replacements and improvements to the Water System, all constituting the 2007 Project, the District and the Corporation have entered into the Installment Purchase Agreement; and

WHEREAS, pursuant to the Installment Purchase Agreement, the District is to make certain Installment Payments to the Corporation; and

WHEREAS, the District has determined that the consummation of the transactions contemplated by the Installment Purchase Agreement is necessary and proper for District purposes and is for the common benefit of the District as a whole; and

WHEREAS, the Installment Payments and all of the Corporation's rights and privileges under the Installment Purchase Agreement (other than rights to indemnification and expenses) have been assigned and transferred by the Corporation to the Trustee pursuant to the Assignment Agreement; and

WHEREAS, in consideration of such assignment and the execution and delivery of this Trust Agreement, the Trustee has agreed to execute and deliver the Certificates, with each Certificate evidencing a proportionate ownership interest in the Installment Payments; and

WHEREAS, the Corporation and the District have determined and hereby certify that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and delivery of this Trust Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the execution and delivery of this Trust Agreement have been in all respects duly authorized; and

NOW, THEREFORE, in consideration of the premises and the mutual agreements and covenants herein, and for other valuable consideration, the parties hereto do hereby covenant and agree, as follows:

ARTICLE I

DEFINITIONS; RULES OF CONSTRUCTION; CONTENTS OF CERTIFICATES AND OPINIONS; RECITALS

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this section shall for all purposes hereof and of any amendment hereof or supplement hereto and of any report or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein. All capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in the Installment Purchase Agreement:

Assignment Agreement. The term "Assignment Agreement" means that certain Assignment Agreement, by and between the Corporation and the Trustee, dated as of _____, 2007 as originally executed or as it may from time to time be amended or supplemented in accordance with its terms.

Bond Insurance Policy. The term "Bond Insurance Policy" means the municipal bond insurance policy issued by the Insurer that guarantees payment of principal of and interest with respect to the Certificates.

Certificate Payment Fund. The term "Certificate Payment Fund" means the fund by that name established in Section 5.02 hereof.

Certificates. The term "Certificates" means the certificates of participation executed and delivered by the Trustee pursuant to this Trust Agreement.

Closing Date. The term "Closing Date" means the date on which the Certificates, duly executed by the Trustee are delivered to _____ as the original purchaser thereof.

Code. The term "Code" means the Internal Revenue Code of 1986 and the regulations issued thereunder, as the same may be amended from time to time and any successor provisions of law. Reference to any particular section of the Code shall be deemed to be a reference to any successor to any such section.

Continuing Disclosure Agreement. The term "Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement, dated as of _____, 2007, by and between the District and Union Bank of California, N.A., as dissemination agent, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

Costs. The term "Costs" shall mean, with respect to the 2007 Project, the costs, expenses and liabilities paid or incurred or to be paid or incurred by the District in connection with the planning, engineering, designing, acquiring, constructing, installing, and financing of the 2007 Project or any portion thereof, and the obtaining of all governmental approvals, certificates, permits and licenses

with respect thereto, including, but not limited to, the cost of any demolitions or relocations necessary in connection therewith, any good faith or other similar payment or deposits, the cost of acquisition by or for the District of real and personal property or any interests therein, costs of physical construction and costs of the District incidental to such construction or acquisition, all costs relating to injury and damage claims, the costs of any indemnity or surety bonds and premiums on insurance, including obligations to a stock, mutual or reciprocal insurance company or exchange, preliminary investigation and development costs, engineering fees and expenses, contractors' fees and expenses, the costs of labor, materials, equipment and utility services and supplies, legal fees and expenses, administration and general overhead expenses and costs of keeping accounts and making reports required by this Trust Agreement prior to or in connection with the completion of construction, and all federal, state and local taxes and payments in lieu of taxes legally required to be paid in connection with the 2007 Project during the period of construction thereof and shall include reimbursements to the District for any of the above items theretofore paid by or on behalf of the District. It is intended that this definition of Cost be broadly construed to encompass all costs, expenses and liabilities of the District which are chargeable to the capital accounts of any portion the 2007 Project in accordance with generally accepted accounting principles.

Defeasance Obligations. The term "Defeasance Obligations" means:

1. Cash
2. U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series – "SLGs")
3. Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities
4. Resolution Funding Corp. ("REFCORP") Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book-entry form are acceptable.
5. Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If, however, the issue is only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA-rated pre-refunded municipals to satisfy this condition.

Delivery Cost Fund. The term "Delivery Cost Fund" means the fund by that name established in Section 3.04 hereof.

Delivery Costs. The term "Delivery Costs" means all items of expense directly or indirectly payable by or reimbursable to the District and related to the authorization, execution, sale and delivery of the Certificates, 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 Certificates and any other cost, charge or fee in connection with the original execution and delivery of the Certificates.

Delivery Date. The term “Delivery Date” means _____, 2007.

Depository or 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 Certificates.

Information Services. The term “Information Services” means Financial Information, Inc.’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302; Fitch “Called Bond Department,” 5250 Center Drive, Suite 150, Charlotte, NC 28217; S&P “Called Bond Record,” 55 Water Street, New York, New York 10041; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the District may designate in a Written Request of the District delivered to the Trustee.

Installment Payments. The term “Installment Payments” means the installment payments payable by the District pursuant to the Installment Purchase Agreement and in the amounts and at the times set forth in the Installment Purchase Agreement.

Installment Payment Date. The term “Installment Payment Date” means the date on which Installment Payments are scheduled to be paid by the District pursuant to the Installment Purchase Agreement.

Installment Purchase Agreement. The term “Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of _____, 2007, by and between the District and the Corporation, as originally executed or as it may from time to time be amended in accordance with its terms.

Insurer. The term “Insurer” means _____, a _____ insurance company, or any successor thereto.

Interest Fund. The term “Interest Fund” means the fund by that name established in Section 5.02 hereof.

Letter of Representations. The term “Letter of Representations” means the letter of representations of the District on file with the Depository setting forth the basis on which the Depository serves as depository for book-entry Certificates.

Moody’s. The term “Moody’s” means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the services of a municipal securities rating agency, then the term “Moody’s” shall be deemed to refer to any other nationally recognized municipal securities rating agency selected by the District.

Nominee. The term “Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to Section 2.11 hereof.

Outstanding. The term “Outstanding,” when used as of any particular time with reference to Certificates, means (subject to the provisions of Section 11.04) all Certificates except --

- (1) Certificates canceled by the Trustee or delivered to the Trustee for cancellation;
- (2) Certificates paid or deemed to have been paid within the meaning of Section 10.01; and
- (3) Certificates in lieu of or in substitution for which other Certificates shall have been executed and delivered by the Trustee pursuant to Section 2.10.

Owner. The term “Owner” or “Certificate Owner” or “Owner of Certificates” or any similar term, when used with respect to the Certificates, means any person who shall be the registered owner of any Outstanding Certificate.

Participating Underwriter. The term “Participating Underwriter” shall have the meaning ascribed thereto in the Continuing Disclosure Agreement.

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 Dates; Payment Date. The term “Payment Dates” means March 1 and September 1 in each year commencing September 1, 2007 and any date on which the unpaid Installment Payments are declared to be due and payable immediately and provided such declaration is not rescinded or annulled, all in accordance with Section 8.01 of the Installment Purchase Agreement.

Permitted Investments. The term “Permitted Investments” means for all purposes other than defeasing investments in a refunding escrow account:

(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 certificates of beneficial ownership
- (ii) Farmers Home Administration (FmHA)
Certificates of beneficial ownership
- (iii) Federal Financing Bank

- (iv) Federal Housing Administration Debentures (FHA)
- (v) General Services Administration
Participation certificates
- (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 Corporation 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 Corporation (FHLMC or “Freddie Mac”)
Participation certificates
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) obligation
- (v) Farm Credit System
Consolidated systemwide bonds and notes
- (vi) Student Loan Marketing Association (SLMA or “Sallie Mae”)
Senior debt obligations

(vii) 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

(viii) Farm Credit System Corp. - Consolidated system-wide bonds and notes

(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 AAm and by Moody's of Aaa, Aa1 or Aa2 (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 Bondholders 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 (including those of the Trustee and its affiliates).

(g) Investment Agreements, including guaranteed investment contracts, acceptable to the Insurer.

(h) Commercial paper rated, at the time of purchase, "Prime-1" by Moody's and "A-1+" or better by S&P.

(i) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P's in one of the two highest rating categories assigned by such agencies.

(j) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured or unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1+" or better by S&P.

(k) Repurchase agreements satisfying criteria acceptable to the Insurer that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date or dates.

(l) Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If, however, the issue is only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

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

(n) Other forms of investments (including repurchase agreements) approved in writing by the Insurer, and constituting the general obligation of a provider whose unsecured long term obligations are rated “A” or higher by S&P.

Prepayment Fund. The term “Prepayment Fund” means the fund by that name established in Section 5.02 hereof.

Prepayment Price. The term “Prepayment Price” means, with respect to any Certificate (or portion thereof), the principal amount with respect to such Certificate (or portion) plus the applicable premium, if any, payable upon prepayment thereof pursuant to the provisions of such Certificate and this Trust Agreement.

Principal Fund. The term “Principal Fund” means the fund by that name established in Section 5.02 hereof.

Rebate Fund. The term “Rebate Fund” means the fund by that name established in Section 5.06 hereof.

Record Date. The term “Record Date” means, with respect to any Payment Date for the Certificates, the fifteenth day of the calendar month prior to such Payment Date.

Reserve Fund. The term “Reserve Fund” means the fund by that name established in Section 5.03 hereof.

Reserve Policy. The term “Reserve Policy” means the municipal bond debt service reserve fund policy issued by Insurer guaranteeing certain payments into the Reserve Fund with respect to the Certificates as provided therein and subject to the limitations set forth therein.

S&P. The term “S&P” means Standard & Poor’s Ratings Service, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors or assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the services of a municipal securities rating agency, then “S&P” shall be deemed to refer to any other nationally recognized municipal securities rating agency selected by the District.

Securities Depositories. The term “Securities Depositories” means: The Depository Trust Company and/or such other securities depositories as the Corporation may designate in a Written Certificate of the Corporation delivered to the Trustee and/or such other securities depositories as the District may designate in a Written Request of the District delivered to the Trustee.

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

Statement of the Corporation or District. The term “Statement of the Corporation or District” means a statement signed by or on behalf of (i) the Corporation by its President, Vice President, Executive Director, Chief Financial Officer or Assistant Chief Financial Officer, or (ii) the District by the President of its Board of Directors, General Manager or Chief Financial Officer or by any two persons (whether or not officers of the District) who are specifically authorized by resolution of the District to sign or execute such a document on its behalf. If and to the extent required by the provisions of Section 1.03, each Statement of the Corporation or District shall include the statements provided for in Section 1.03.

Tax Certificate. “Tax Certificate” means the Tax Certificate dated the Closing Date, concerning certain matters pertaining to the use and investment of proceeds of the Certificates executed by and delivered to the District, including any and all exhibits attached thereto.

Trust Agreement. The term “Trust Agreement” means this Trust Agreement as originally executed or as it may from time to time be amended as provided for herein.

Trustee. The term “Trustee” means Union Bank of California, N.A., a national banking association, duly organized and existing under and by virtue of the laws of the United States of America, having a principal corporate trust office in Los Angeles, California, or its successor as Trustee hereunder.

2007 Project. The term “2007 Project” means the additions, betterments, extensions, replacements and improvements to the Water System described or provided for in Exhibit A to the Installment Purchase Agreement.

2007 Project Fund. The term “2007 Project Fund” means the fund by that name established pursuant to Section 3.05 hereof.

2007 Reserve Fund Requirement. The term “2007 Reserve Fund Requirement” means, as of any date of calculation, an amount equal to the lesser of (i) maximum Installment Payments due in connection with the Certificates during the then current or any future Fiscal Year or (ii) \$_____.

Written Order of the Corporation or District, Written Request of the Corporation or District. The terms “Written Order of the District,” “Written Order of the Corporation,” “Written Request of the District” or “Written Request of the Corporation” mean, respectively, a written order, request or requisition signed by or on behalf of (i) the Corporation by its President, Vice President, Executive Director or Treasurer, or (ii) the District by the Chairman of its Board of Directors, General Manager or Chief Financial Officer or by any two persons who are specifically authorized by resolution of the District to sign or execute such a document on its behalf.

Section 1.02. Rules of Construction. Words of any gender shall be deemed and construed to include all genders, and words importing persons shall include corporations and associations, including public bodies, as well as natural persons. Unless the context otherwise indicates, words importing the singular number shall include the plural number and vice versa.

Section 1.03. Content of Statements and Opinions. Every statement or opinion with respect to compliance with a condition or covenant provided for in this Trust Agreement, including each Statement of the Corporation, shall include (a) a statement that the person or persons making or giving such statement or opinion have read such covenant or condition and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such statement or opinion are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such covenant or condition has been complied with; and (d) a statement as to whether, in the opinion of the signers, such condition or covenant has been complied with.

Any such statement or opinion made or given by an officer of the Corporation may be based, insofar as it relates to legal or accounting matters, upon a statement or opinion of or representations by counsel, accountants or consultants, unless such officer knows, or in the exercise of reasonable care should have known, that the statement or opinion or representations with respect to the matters upon which his statement or opinion may be based, as aforesaid, are erroneous. Any such statement or opinion made or given by counsel, accountants or consultants may be based, insofar as it relates to factual matters, upon information with respect to which is in the possession of the Corporation, or upon the statement or opinion of or representations by an officer or officers of the Corporation, unless such counsel, accountant or consultant knows, or in the exercise of reasonable care should have known, that the statement or opinion or representations with respect to the matters upon which his opinion may be based as aforesaid are erroneous.

Section 1.04. Recitals. The Recitals set forth above are incorporated and made part of this Trust Agreement by reference as if fully set forth herein.

ARTICLE II

CERTIFICATES; TERMS AND PROVISIONS

Section 2.01. Preparation of Certificates. The Trustee is hereby authorized to execute certificates of participation, to be denominated "Otay Water District Revenue Certificates of Participation (2007 Water System Project), Series 2007" in an aggregate principal amount of \$42,000,000* evidencing undivided interests in Installment Payments to be paid by the District under the Installment Purchase Agreement.

Section 2.02. Denominations; Medium and Place of Payment; Dating. The Certificates shall be delivered in the form of fully registered Certificates in the denomination of \$5,000 each or any integral multiple thereof; provided that no Certificate shall have principal represented thereby maturing in more than one year.

The principal and Prepayment Price with respect to all Certificates shall be payable in lawful money of the United States of America upon presentation and surrender thereof at the principal corporate trust office of the Trustee in Los Angeles, California. Interest with respect to Certificates shall be payable by check or draft of the Trustee mailed by first class mail on the Payment Dates of such Certificates to the respective Certificate Owners of record thereof as of the close of business on the Record Date at the addresses shown on the books required to be kept pursuant to Section 2.08 or, upon the written request received by the Trustee of an Owner of at least \$1,000,000 in aggregate principal amount of Certificates, by wire transfer of immediately available funds to an account in the United States designated by such Owner prior to the applicable Record Date, except in each case, that, if and to the extent that there shall be a default in the payment of the interest due on such Payment Date, such defaulted interest shall be paid to the Owners in whose names any such Certificates are registered at the close of business on a special record date as determined by the Trustee. A written notice for wire transfer shall remain in effect until otherwise specified by the Owner who requested wire transfer.

The Certificates shall be dated the Delivery Date. Interest with respect to Certificates shall be payable from the Payment Date next preceding their date of execution, unless such date shall be

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after a Record Date and on or before the succeeding Payment Date, in which case interest shall be payable from such Payment Date or unless such date shall be on or before the first Record Date, in which case interest shall be payable from Closing Date, provided, however, that if, as shown by the records of the Trustee, interest represented by the Certificates shall be in default, Certificates executed in exchange for Certificates surrendered for transfer or exchange shall represent interest from the last date to which interest has been paid in full or duly provided for with respect to the Certificates, or, if no interest has been paid or duly provided for with respect to the Certificates, from the Closing Date.

Section 2.03. Payment of Principal and Interest with Respect to Certificates.

(a) Certificates shall become payable on September 1 in the years and in the amounts and with an interest component as provided in subsection (b) below at the rates, as follows:

<i>Payment Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>
2008		
2009		
2010		
2011		
2012		
2013		
2014		
2015		
2016		
2017		
2018		
2019		
2020		
2021		
2022		
2023		
2024		
2025		
2026		
2027		

Principal or Prepayment Price due with respect to the Certificates at maturity or prepayment thereof, whichever is earlier, shall, to the extent of the aggregate principal amount stated upon the Certificates, represent the sum of those portions of the Installment Payments designated as principal coming due on the Installment Payment Dates immediately preceding the Payment Dates in each year.

(b) Interest with respect to the Certificates shall be payable on each Payment Date, continuing to and including the date of maturity or prior prepayment, whichever is earlier. Said interest shall represent the sum of those portions of the Installment Payments designated as interest coming due on the Installment Payment Dates, at the rates set forth in subsection (a) above. Interest

with respect to the Certificates shall be calculated on the basis of a 360 day year of twelve 30-day months.

Section 2.04. Form of Certificates. The Certificates and the form of assignment to appear thereon shall be in substantially the form set forth in Exhibit A hereto with necessary or appropriate variations, omissions and insertions as permitted or required by this Trust Agreement.

Section 2.05. Execution. The Certificates shall be executed by and in the name of the Trustee, as trustee under this Trust Agreement, by the manual signature of an authorized officer or signatory of the Trustee.

Section 2.06. Transfer of Certificates. Any Certificate may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.08, by the person in whose name it is registered, in person or by such person's duly authorized attorney, upon surrender of such Certificate for cancellation at the principal corporate trust office of the Trustee in Los Angeles, California, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee.

Whenever any Certificate or Certificates shall be surrendered for transfer, the Trustee shall execute and deliver a new Certificate or Certificates of the same maturity, for a like aggregate principal amount and of authorized denomination or denominations. The Trustee may charge a sum for each new Certificate executed and delivered upon any transfer. The Trustee may require the payment by any Certificate Owner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer. Following any transfer of Certificates the Trustee shall cancel and destroy the Certificates it has received.

Section 2.07. Exchange of Certificates. Certificates may be exchanged at the principal corporate trust office of the Trustee in Los Angeles, California, for a like aggregate principal amount of Certificates of other authorized denominations of the same maturity. The Trustee may charge a sum for each new Certificate executed and delivered upon any exchange except in the case of any exchange of temporary Certificates for definitive Certificates. The Trustee may require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of Certificates the Trustee shall cancel and destroy the Certificates it has received.

The Trustee shall not be required to register the exchange, or transfer pursuant to Section 2.06 hereof, of any Certificate (i) within 15 days preceding selection of Certificates for prepayment or (ii) selected for prepayment.

Section 2.08. Certificate Registration Books. The Trustee will keep or cause to be kept, at its principal corporate trust office in Los Angeles, California, sufficient books for the registration and transfer of the Certificates, which shall upon reasonable prior notice and at all reasonable times be open to inspection by the Corporation or the District; 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 said books, Certificates as hereinbefore provided.

The person in whose name any Certificate shall be registered shall be deemed the Owner thereof for all purposes hereof, and payment of or on account of the interest with respect to and principal of and Prepayment Price represented by such Certificate 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 Certificate to the extent of the sum or sums so paid.

Section 2.09. Temporary Certificates. The Certificates may be initially executed and delivered in temporary form exchangeable for definitive Certificates when ready for delivery. The temporary Certificates may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Trustee, shall be in registered form and may contain such reference to any of the provisions of this Trust Agreement as may be appropriate. Every temporary Certificate shall be executed by the Trustee upon the same conditions and in substantially the same manner as the definitive Certificates. If the Trustee executes and delivers temporary Certificates it will execute and furnish definitive Certificates without delay, and thereupon the temporary Certificates may be surrendered, for cancellation, in exchange therefor at the principal corporate trust office of the Trustee in Los Angeles, California, and the Trustee shall deliver in exchange for such temporary Certificates an equal aggregate principal amount of definitive Certificates of the same maturity or maturities. Until so exchanged, the temporary Certificates shall be entitled to the same benefits under this Trust Agreement as definitive Certificates executed and delivered hereunder.

Section 2.10. Certificates Mutilated, Lost, Destroyed or Stolen. If any Certificate shall become mutilated, the Trustee shall execute and deliver a new Certificate of like tenor, maturity and principal amount in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated.

Every mutilated Certificate so surrendered to the Trustee shall be canceled by it and destroyed. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given indemnifying the Trustee, the Corporation and the District, the Trustee, at the expense of the Certificate Owner, shall execute and deliver a new Certificate of like tenor and maturity, and numbered as the Trustee shall determine, in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Certificate executed under this Section and of the expenses which may be incurred by the Trustee under this Section. Any Certificate executed under the provisions of this Section in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of this Trust Agreement with all other Certificates secured by this Trust Agreement. The Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the principal amount of Certificates which may be executed hereunder or for the purpose of determining any percentage of Certificates Outstanding hereunder, but both the original and replacement Certificate shall be treated as one and the same. Notwithstanding any other provision of this Section, in lieu of delivering a new Certificate for a Certificate which has been mutilated, lost, destroyed or stolen and which has matured or has been selected for prepayment, the Trustee may make payment of such Certificate upon receipt of indemnity satisfactory to the Trustee.

Section 2.11. Book-Entry System.

(a) Election of Book-Entry System. Prior to the execution and delivery of the Certificates, the District may provide that such Certificates shall be initially executed and delivered as book-entry Certificates. If the District shall elect to deliver any Certificates in book-entry form, then the District shall cause the delivery of a separate single fully registered certificate (which may be typewritten) for each maturity date of such Certificates in an authorized denomination

corresponding to that total principal amount of the Certificates designated to mature on such date. Upon initial execution and delivery, the ownership of each such Certificate shall be registered in the Certificate registration books in the name of the Nominee, as nominee of the Depository and ownership of the Certificates, or any portion thereof may not thereafter be transferred except as provided in Section 2.11(e).

With respect to book-entry Certificates, 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 Certificates. 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 Certificates, (ii) the delivery to any Participant or any other person, other than an Owner as shown in the Certificate registration books, of any notice with respect to book-entry Certificates, including any notice of prepayment, (iii) the selection by the Depository and its Participants of the beneficial interests in book-entry Certificates to be prepaid in the event the District prepaays the Certificates in part, or (iv) the payment by the Depository or any Participant or any other person, of any amount of principal of, premium, if any, or interest with respect to book-entry Certificates. The District and the Trustee may treat and consider the person in whose name each book-entry Certificate is registered in the Certificate registration books as the absolute Owner of such book-entry Certificate for the purpose of payment of principal of, premium and interest with respect to such Certificate, for the purpose of giving notices of prepayment and other matters with respect to such Certificate, for the purpose of registering transfers with respect to such Certificate, and for all other purposes whatsoever. The Trustee shall pay all principal of, premium, if any, and interest with respect to the Certificates only to or upon the order of the respective Owner, as shown in the Certificate 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, premium, if any, and interest with respect to the Certificates to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Certificate registration books, shall receive a Certificate evidencing the obligation to make payments of principal of, premium; if any, and interest with respect to the Certificates. Upon delivery by the Depository to the Owner 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 this Trust Agreement shall refer to such nominee of the Depository.

(b) Selection of Depository. In the event (i) the Depository determines not to continue to act as securities depository for book-entry Certificates, or (ii) the District determines that continuation of the book-entry system is not in the best interest of the beneficial owners of the Certificates 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 Certificate for each of the maturity dates of such book-entry Certificates, registered in the name of such successor or substitute qualified securities depository or its Nominee as provided in subsection 2.11(e) hereof. If the District fails to identify another qualified securities depository to replace the Depository, then the Certificates shall no longer be restricted to being registered in such Certificate registration books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging such Certificates shall designate, in accordance with the provisions of Sections 2.06 and 2.07 hereof.

(c) Payments To Depository. Notwithstanding any other provision of this Trust Agreement to the contrary, so long as all Outstanding Certificates are held in book-entry form and registered in the name of the Nominee, all payments of principal of, prepayment premium, if any, and interest with respect to such Certificate and all notices with respect to such Certificate 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.

(d) Transfer of Certificates to Substitute Depository.

(i) The Certificates shall be initially executed and delivered as provided in Section 2.01 hereof. Registered ownership of such Certificates, 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 2.11(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 2.11(e), upon receipt of all Outstanding Certificates by the Trustee, together with a Written Request of the District to the Trustee designating the Substitute Depository, a single new Certificate, which the District shall prepare or cause to be prepared, shall be executed and delivered for each maturity of Certificates 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 2.11(e), upon receipt of all Outstanding Certificates by the Trustee, together with a Written Request of the District to the Trustee, new Certificates, which the District shall prepare or cause to be prepared, shall be executed and delivered in such denominations and registered in the names of such persons as are requested in a 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 Certificates within a period of less than sixty (60) days from the date of receipt of such Written Request of the District.

(iii) In the case of a partial prepayment or an advance refunding of any Certificates 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 Certificates 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.

(iv) The District and the Trustee shall be entitled to treat the person in whose name any Certificate is registered as the Owner thereof for all purposes of this Trust Agreement 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 Certificates. 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 Certificates, and the Trustee may rely conclusively on its records as to the identity of the Owners of the Certificates.

ARTICLE III

DELIVERY OF CERTIFICATES; DELIVERY COST FUND

Section 3.01. Delivery of Certificates. The Trustee is hereby authorized to execute and deliver Certificates in an aggregate principal amount of \$42,000,000*, upon the Written Order of the District.

Section 3.02. Application of Proceeds of Certificates. The \$_____ proceeds received from the sale of the Certificates (representing the \$42,000,000* aggregate principal amount of the Certificates, plus \$_____ in net original issue premium, less \$_____ representing the Underwriter's discount and \$_____ representing the premiums on the Bond Insurance Policy[and Reserve Policy], which shall be wired directly by the Underwriter to the Insurer on behalf of the District) shall be deposited with the Trustee and applied as follows:

(a) \$_____ shall be transferred to the District for deposit in the 2007 Project Fund; and

(b) \$_____ shall be deposited in the Delivery Cost Fund.

Section 3.03. Validity of Certificates. The validity of the execution and delivery of the Certificates is not dependent on and shall not be affected in any way by any proceedings taken by the District, the Corporation or the Trustee with respect to or in connection with the Installment Purchase Agreement. The recital contained in the Certificates that all acts, conditions and things required by the Constitution and statutes of the State of California and this Trust Agreement to exist, to have happened and to have been performed precedent to and in the delivery thereof do exist, have happened and have been performed in due time, form and manner as required by law shall be conclusive evidence of their validity and of compliance with the provisions of law in their delivery.

Section 3.04. Delivery Cost Fund. There is hereby established with the Trustee the Delivery Cost Fund which the Trustee shall establish and maintain and hold in trust separate and apart from other funds held by it. The moneys in the Delivery Cost Fund shall be used and withdrawn by the Trustee to pay Delivery Costs upon submission of Written Requisitions of the

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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 a proper charge against said fund and that payment for such charge has not previously been made. On _____, 2007, or upon the earlier Written Request of the District, all amounts remaining in the Delivery Cost Fund shall be transferred by the Trustee to the District for deposit into the 2007 Project Fund and the Delivery Cost Fund shall be closed.

Section 3.05. 2007 Project Fund. The District shall establish, maintain and hold a fund separate from any other fund established and maintained by the District designated as the "Revenue Certificates of Participation 2007 Project Fund" (the "2007 Project Fund"). Moneys in the 2007 Project Fund shall be expended for Costs of the 2007 Project in accordance with this Section.

(a) There shall be credited to the 2007 Project Fund the following amounts:

(i) the proceeds of sale of the Certificates required pursuant to Section 2.03 hereof to be transferred to the District by the Trustee for deposit in the 2007 Project Fund; and

(ii) any other funds from time to time deposited in the 2007 Project Fund to pay Costs of the 2007 Project.

(b) The District shall disburse moneys in the 2007 Project Fund from time to time, as needed to pay for Costs of the 2007 Project. In connection with each disbursement, the District shall prepare a Written Order of the District containing the following information: (i) the Written Order Number; (ii) the Capital Improvement Number (CIP) assigned by the District to the work; (iii) the amount to be disbursed, invoice number and copy of invoice; (iv) the name and address of the person, firm or entity to whom payment is being made; (v) a brief, but reasonably specific description of the nature of the obligation; (vi) a statement that the District has not received or been served with notice of any lien, right to lien or claim upon the work subject of the invoice or the right of person or entity being compensated to receive payment therefor, which has not been released or will not be released simultaneously with the payment of the invoice, other than materialman's or mechanic's liens accruing by operation of law; (vii) a statement that, to the best of the knowledge of the District as of the date thereof, no event of default has occurred or is continuing under this Trust Agreement; and (viii) if the invoice relates to a portion of the 2007 Project that has been accepted, a copy of the acceptance and notice of completion.

(c) [The District shall invest funds on deposit in the 2007 Project Fund in Permitted Investments.]

(d) Interest earned on amounts on deposit in the 2007 Project Fund shall be used for Costs of the 2007 Project.

(e) Upon a determination by the District that the work on the 2007 Project has been completed, any amounts remaining in the 2007 Project Fund and not otherwise committed for payment of Costs related to the 2007 Project shall be withdrawn from the 2007 Project Fund and transferred to the Trustee for deposit into the Certificate Payment Fund. After all Costs related to the 2007 Project have been paid, any amounts still in the 2007 Project Fund shall similarly be transferred to the Trustee for deposit in the Certificate Payment Fund and the 2007 Project Fund shall be closed.

ARTICLE IV

PREPAYMENT OF CERTIFICATES

Section 4.01. Terms of Prepayment.

(a) The Certificates shall be subject to prepayment prior to their respective stated maturities, as a whole or in part in the order of maturity as directed by a Written Request of the District provided to the Trustee and by lot within each maturity, on any date, in integral multiples of \$5,000 from prepaid Installment Payments made by the District from Net Proceeds, upon the terms and conditions of, and as provided for in, Section 6.10 of this Trust Agreement, and Sections 6.09 and 6.15 of the Installment Purchase Agreement, at a Prepayment Price equal to the principal amount thereof plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

(b) The Certificates with stated maturities on or after September 1, 2017, shall further be subject to prepayment prior to their respective stated maturities, as a whole or in part, in the order of maturity as directed by a Written Request of the District provided to the Trustee and by lot within each maturity in integral multiples of \$5,000, on any date, on or after September 1, 2016, from optional prepayments of the Installment Payments made by the District pursuant to the Installment Purchase Agreement at a prepayment price equal to the principal amount of such Certificates to be prepaid plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

Section 4.02. Selection of Certificates for Prepayment. Whenever less than all of the Certificates are called for prepayment, the Trustee shall select the Certificates or portions thereof to be prepaid from the Outstanding Certificates in accordance with Section 4.01 hereof. The Trustee shall promptly notify the District in writing of the numbers of the Certificates or portions thereof so selected for prepayment.

Section 4.03. Notice of Prepayment. Notice of prepayment shall be mailed, first class postage prepaid, to the respective Owners of any Certificates designated for prepayment at their addresses appearing on the Certificate registration books and to the Information Services and by registered or certified or overnight mail to the Securities Depositories at least 30 days but not more than 60 days prior to the prepayment date.

With respect to any notice of optional prepayment of Certificates, such notice may state that such prepayment shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such prepayment of moneys sufficient to pay the principal of, premium, if any, and interest with respect to such Certificates to be prepaid and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Trustee shall not be required to prepay such Certificates. In the event that such notice of prepayment contains such a condition and such moneys are not so received, the prepayment shall not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of prepayment was given, that such moneys were not so received.

Each notice of prepayment shall state the date of notice, the prepayment date, the place or places of prepayment and the Prepayment Price, shall designate the maturities, CUSIP numbers, if any, and, if less than all Certificates of any such maturity are to be prepaid, the serial numbers of the

Certificates of such maturity to be prepaid by giving the individual number of each Certificate or by stating that all Certificates between two stated numbers, both inclusive, have been called for prepayment and, in the case of Certificates to be prepaid in part only, the respective portions of the principal amount thereof to be prepaid. Each such notice shall also state that on said date there will become due and payable on each of said Certificates the Prepayment Price thereof or of said specified portion of the principal represented thereby in the case of a Certificate to be prepaid in part only, together with interest accrued with respect thereto to the prepayment date, and that (provided that moneys for prepayment have been deposited with the Trustee) from and after such prepayment date interest with respect thereto shall cease to accrue, and shall require that such Certificates be then surrendered to the Trustee. Any defect in the notice or the mailing thereof will not affect the validity of the prepayment of any Certificate.

Notice of prepayment of Certificates shall be given by the Trustee on behalf of and at the expense of the District.

Section 4.04. Partial Prepayment of Certificate. Upon surrender of any Certificate prepaid in part only, the Trustee shall execute and deliver to the Owner thereof, at the expense of the District, a new Certificate or Certificates of authorized denominations equal in aggregate principal amount to the unprepaid portion of the Certificate surrendered and of the same interest rate and maturity.

Section 4.05. Effect of Prepayment. When notice of prepayment has been duly given as aforesaid, and moneys for payment of the Prepayment Price of, together with interest accrued to the prepayment date with respect to, the Certificates (or portions thereof) so called for prepayment are held by the Trustee, the Certificates (or portions thereof) so called for prepayment shall, on the prepayment date designated in such notice, become due and payable at the Prepayment Price specified in such notice and interest accrued thereon to the prepayment date; and from and after the prepayment date interest represented by the Certificates so called for prepayment shall cease to accrue, said Certificates (or portions thereof) shall cease to be entitled to any benefit or security under this Trust Agreement, and the Owners of said Certificates shall have no rights in respect thereof except to receive payment of said Prepayment Price and accrued interest.

All Certificates prepaid pursuant to the provisions of this Article shall be canceled upon surrender thereof and destroyed by the Trustee.

ARTICLE V

INSTALLMENT PAYMENTS

Section 5.01. Pledge and Deposit of Installment Payments. The Installment Payments are hereby irrevocably pledged to, and shall be used for, the punctual payment of the Certificates, and the Installment Payments shall not be used for any other purpose while any of the Certificates remain Outstanding. This pledge shall constitute a first and exclusive lien on the Installment Payments in accordance with the terms hereof.

All Installment Payments to which the Corporation may at any time be entitled (including income or profit from investments pursuant to Section 5.04) shall be paid directly to the Trustee pursuant to the terms of the Assignment Agreement, and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee within one business day after the receipt thereof; and the Trustee shall deposit all Installment Payments as and when received in the

Certificate Payment Fund. All moneys at any time deposited in the Certificate Payment Fund shall be held by the Trustee in trust for the benefit of the Owners from time to time of the Certificates, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes herein set forth.

Section 5.02. Certificate Payment Fund. There is hereby established with the Trustee the "Certificate 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 Installment Payments remain unpaid. The Trustee shall transfer from the Certificate Payment Fund the following amounts at the times and in the manner hereinafter provided, and shall deposit such amounts in one or more of the following respective funds, each of which the Trustee shall establish and maintain and hold in trust separate and apart from other funds held by it, and each of which shall be disbursed and applied only as hereinafter authorized. Such amounts shall be so transferred to and deposited in the following respective funds in the following order of priority, the requirements of each such fund at the time of deposit to be satisfied before any transfer is made to any fund subsequent in priority:

(a) Interest Fund. The Trustee, on the second business day before each Payment Date (commencing on the second to last business day of August 2007) shall deposit in the Interest Fund an amount representing the portion of the Installment Payments designated as interest coming due on the next succeeding March 1 or September 1, as the case may be.

No deposit need be made into the Interest Fund so long as there shall be in such fund moneys sufficient to pay the interest portion of all Certificates then Outstanding on the next March 1 or September 1, as the case may be.

Except as hereinafter provided, moneys in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest with respect to the Certificates when due and payable (including accrued interest on any Certificates prepaid prior to maturity pursuant to this Trust Agreement).

(b) Principal Fund. The Trustee, on the second business day before each September 1 (commencing on the second to last business day of August 2008), shall deposit in the Principal Fund an amount equal to the principal coming due with respect to the Certificates on the next succeeding September 1.

No deposit need be made into the Principal Fund so long as there shall be in such fund moneys sufficient to pay the portion of all Certificates then Outstanding designated as principal and coming due on the next succeeding September 1.

Except as hereinafter provided, moneys in the Principal Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal with respect to the Certificates when due and payable.

(c) Prepayment Fund. Moneys to be used for prepayment pursuant to Section 4.01 hereof and paid by the District pursuant to Section 7.01 of the Installment Purchase Agreement shall be transferred by the Trustee from the Certificate Payment Fund and deposited in the Prepayment Fund on the prepayment date specified in the Written Request of the District filed with the Trustee pursuant to Section 7.02 of the Installment Purchase Agreement. Said moneys shall be set aside in the Prepayment Fund solely for the purpose of prepaying the Certificates in advance of

their respective stated maturities and shall be applied on or after the date specified for prepayment pursuant to Section 4.01 hereof to the payment of the Prepayment Price with respect to the Certificates to be prepaid upon presentation and surrender of such Certificates.

Section 5.03. Reserve Fund. There is hereby established with the Trustee the “Reserve Fund,” which the Trustee covenants to maintain and hold in trust separate and apart from other funds held by it so long as any Installment Payments remain unpaid. The Trustee shall deposit in the Reserve Fund the amounts required to be deposited therein pursuant to the Installment Purchase Agreement and this Trust Agreement and apply moneys in the Reserve Fund in accordance with this Section 5.03. The 2007 Reserve Fund Requirement will initially be funded with the Reserve Policy.

(a) *Deposits*. If one business day prior to any Payment Date the moneys in the Certificate Payment Fund are insufficient to make the payments required by this Trust Agreement with respect to Certificates on such Payment Date, the Trustee shall transfer from the Reserve Fund to the Certificate Payment Fund the amount of such insufficiency. In the event that the Trustee has transferred moneys from the Reserve Fund to the Certificate Payment Fund in accordance with this Section 5.03, upon receipt of the moneys from the District to increase the balance in the Reserve Fund to the 2007 Reserve Fund Requirement, the Trustee shall deposit such moneys in the Reserve Fund.

(b) *Withdrawal of Amounts of Deposit*. If the amount available and contained in the Reserve Fund exceeds an amount equal to the 2007 Reserve Fund Requirement and if the District is not then in default under the Installment Purchase Agreement, the Trustee shall semiannually on or before March 1 and September 1 withdraw the amount of such excess from the Reserve Fund and shall deposit such amount in the Certificate Payment Fund, and for this determination the Trustee shall make a valuation of the Reserve Fund as often as it may deem appropriate, and in any event on or before March 1 and September 1 in each year. In addition, the Trustee shall, on the date all or any portion of the Certificates are discharged in accordance with Section 10.02 hereof; value the Reserve Fund in accordance with this Section and withdraw the excess, if any, on deposit in the Reserve Fund and transfer such amount to or in accordance with the written direction of the District. Except for such withdrawals, all moneys in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of paying principal and interest with respect to the Certificates in the event that no other moneys of the District are available therefor.

(c) *Draws from Reserve Policy; Additional Funding Instruments*. In the event and to the extent that moneys on deposit in the Interest Fund and Principal Account, plus all amounts on deposit in and credited to the Reserve Fund in excess of the amount of the Reserve Policy, are insufficient, as of the second Business Day preceding an Payment Date, to pay the amount of principal and interest with respect to the Certificates on such Payment Date, the Trustee shall execute and deliver to the Insurer a demand for payment in the amount of such insufficiency, up to but not in excess of the amount of the Reserve Policy coverage; provided, however, that in the event that the amount on deposit in, or credited to, the Reserve Fund, in addition to the amount available under the Reserve Policy, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the “Additional Funding Instrument”), draws on the Reserve Policy and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency. The Trustee shall, after submitting to the Insurer the demand for payment as provided above, make available to Insurer all records relating to the funds and accounts maintained under this Trust Agreement. The Trustee shall, upon receipt of moneys received from the draw on the Reserve

Policy, as specified in the demand for payment, credit the Reserve Fund to the extent of moneys received pursuant to such demand for payment.

(d) *Deposit of Substitute Policy or Additional Funding Instrument.* With the written consent of the Insurer, the District may replace the Reserve Policy, in whole or in part, by depositing with the Trustee one or more policies of insurance, letters of credit or surety bonds in an aggregate amount sufficient to meet the 2007 Reserve Fund Requirement, if the following requirements are met: (i) a surety bond or other financial undertaking issued by a financial institution may be deposited if the unsecured obligations of or the claims paying ability of such financial institution has the highest rating then issued by S&P and Moody's, or (ii) a policy of insurance issued by an insurance company, if the obligations insured by such company have the highest rating then issued by S&P or Moody's, delivered to the Trustee to satisfy the obligation to deposit moneys to the Reserve Account in connection with the Certificates; and (iii) as long as the Certificates are insured, an opinion of counsel acceptable to the Insurer and in form and substance satisfactory to the Insurer.

Section 5.04. Investment of Moneys in Special Funds. Any moneys in the Delivery Cost Fund, the Certificate Payment Fund, the Interest Fund, the Principal Fund, the Reserve Fund and the Prepayment Fund shall be invested upon the Written Request of the District, by the Trustee, in Permitted Investments which will mature on or before the dates when such moneys are scheduled to be needed for payment from such fund. Securities acquired as an investment of moneys in a fund shall be credited to such fund.

In the absence of written investment direction from the District, the Trustee shall invest moneys held by it solely in Permitted Investments specified in clause (d) of the definition thereof.

Any interest, profit or other income on such investments will be deposited when received by the Trustee in the Reserve Fund to the extent the amount available and contained therein is less than the 2007 Reserve Fund Requirement and thereafter in the Certificate Payment Fund established hereunder.

Subject to the further provisions of Section 6.03 hereof; the Trustee may sell or present for prepayment any obligations so purchased at the direction of the District whenever it shall be necessary in order to provide moneys to meet any payment, and the Trustee shall not be liable or responsible for any loss resulting from such investment. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of any investment and shall be entitled to its customary fee therefor. The Trustee may commingle any of the funds or accounts established pursuant to this Trust Agreement into a separate fund or funds for investment purposes only; provided, however, that all funds or accounts held by the Trustee hereunder shall be accounted for separately notwithstanding such commingling.

Section 5.05. Pledge of Moneys in Funds. All amounts on deposit in the, the Certificate Payment Fund, the Interest Fund, the Principal Fund, the Prepayment Fund and the Reserve Fund are hereby irrevocably pledged to the Owners of the Certificates as provided herein. This pledge shall constitute a first and exclusive lien on the Delivery Cost Fund, the Certificate Payment Fund, the Interest Fund, the Principal Fund, the Prepayment Fund and the Reserve Fund for the benefit of the Owners of the Certificates in accordance with the terms hereof and of the Installment Purchase Agreement. Amounts deposited in the Rebate Fund are not pledged to the Owners of the Certificates.

Section 5.06. Rebate Fund.

(a) *General.* The Trustee shall establish a special fund to be known as the Rebate Fund. All amounts at any time on deposit in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the requirement to make rebate payments to the United States (the “Rebate Requirement”) pursuant to Section 148 of the Code and the Treasury Regulations promulgated thereunder. Such amounts shall be free and clear of any lien under this Trust Agreement and shall be governed by this Section and Section 6.03 of this Trust Agreement and by the Tax Certificate. The Trustee shall be deemed conclusively to have complied with the Rebate Requirement if it follows the directions of the District, and shall have no independent responsibility to, or liability resulting from its failure to, enforce compliance by the District with the Rebate Requirement.

(b) *Deposits.*

(i) Within 45 days of the end of each Certificate Year (as such term is defined in the Tax Certificate), (A) the District shall calculate or cause to be calculated with respect to the Certificates the amount that would be considered the “rebate amount” within the meaning of Section 1.148-3 of the Treasury Regulations, using as the “computation date” for this purpose the end of such Certificate Year, and (B) upon the Written Request of the District, the Trustee shall deposit to the Rebate Fund from deposits from the District, if and to the extent required, amounts sufficient to cause the balance in the Rebate Fund to be equal to the “rebate amount” so calculated.

(ii) The Trustee shall not be required to deposit any amount to the Rebate Fund in accordance with the preceding paragraph if the amount on deposit in the Rebate Fund prior to the deposit required to be made under this subsection (b) equals or exceeds the “rebate amount” calculated in accordance with the preceding paragraph. Such excess may be withdrawn from the Rebate Fund to the extent permitted under subsection (g) of this Section.

(iii) The District shall not be required to calculate the “rebate amount,” and the Trustee shall not be required to deposit any amount to the Rebate Fund in accordance with this subsection (b), with respect to all or a portion of the proceeds of the Certificates (including amounts treated as proceeds of the Certificates) (1) to the extent such proceeds satisfy the expenditure requirements of Section 148(f)(4)(B) or Section 148(f)(4)(C) of the Code or Section 1.148-7(d) of the Treasury Regulations, whichever is applicable, and otherwise qualify for the exception to the Rebate Requirement pursuant to whichever of said sections is applicable, (2) to the extent such proceeds are subject to an election by the District under Section 148(f)(4)(C)(vii) of the Code to pay a 1½% penalty in lieu of arbitrage rebate in the event any of the percentage expenditure requirements of Section 148(f)(4)(C) are not satisfied, or (3) to the extent such proceeds qualify for the exception to arbitrage rebate under Section 148(f)(4)(A)(ii) of the Code for amounts in a “bona fide debt service fund.” In such event, and with respect to such amounts, the District shall provide written direction to the Trustee that the Trustee shall not be required to deposit any amount to the Rebate Fund in accordance with this subsection (b).

(c) *Withdrawal Following Payment of Certificates.* Any funds remaining in the Rebate Fund after prepayment of all the Certificates and any amounts described in paragraph (ii) of subsection (d) of this Section, or provision made therefor satisfactory to the Trustee, including accrued interest and payment of any applicable fees to the Trustee, shall be withdrawn by the Trustee and remitted to the District.

(d) *Withdrawal for Payment of Rebate.* Upon the Written Request of the District, but subject to the exceptions contained in subsection (b) of this Section to the requirement to calculate the “rebate amount” and make deposits to the Rebate Fund, the Trustee shall pay to the United States, from amounts on deposit in the Rebate Fund:

(i) not later than 60 days after the end of (A) the fifth Certificate Year, and (B) each fifth Certificate Year thereafter, an amount that, together with all previous rebate payments, is equal to at least 90% of the “rebate amount” calculated as of the end of such Certificate Year in accordance with Section 1.148 3 of the Treasury Regulations; and

(ii) not later than 60 days after the payment of all Certificates, an amount equal to 100% of the “rebate amount” calculated as of the date of such payment (and any income attributable to the “rebate amount” determined to be due and payable) in accordance with Section 1.148 3 of the Treasury Regulations.

(e) *Rebate Payments.* Each payment required to be made pursuant to subsection (d) of this Section 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, which shall be completed by or on behalf of the District and provided to the Trustee.

(f) *Deficiencies in the Rebate Fund.* In the event that, prior to the time any payment is 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 the amount of such deficiency and direct the Trustee to deposit an amount received from the District equal to such deficiency into the Rebate Fund prior to the time such payment is due.

(g) *Withdrawals of Excess Amounts.* In the event that immediately following the calculation required by subsection (b) of this Section, but prior to any deposit made under said subsection, the amount on deposit in the Rebate Fund exceeds the “rebate amount” calculated in accordance with said subsection, upon Written Request of the District, the Trustee shall withdraw the excess from the Rebate Fund and credit such excess to the Certificate Payment Fund.

(h) *Record Keeping.* The District shall retain records of all determinations made hereunder until six years after the complete retirement of the Certificates.

(i) *Survival of Defeasance.* Notwithstanding anything in this Trust Agreement to the contrary, the Rebate Requirement shall survive the defeasance or payment in full of the Certificates.

Section 5.07. Payment Procedure Pursuant to the Bond Insurance Policy. If, on the third Business Day prior to the related scheduled Interest Payment Date or the date to which Certificate maturity has been accelerated (“Insurance Payment Date”) there is not on deposit with the Trustee, after making all transfers and deposits required under this Trust Agreement, moneys sufficient to pay the principal of and interest with respect to the Certificates due on such Insurance Payment Date, the Trustee shall give notice to the Insurer and to its designated agent (if any) (the “Insurer’s Fiscal Agent”) by telephone or telecopy of the amount of such deficiency by ____ p.m., _____ time, on such Business Day. If, on the second Business Day prior to the related Insurance Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest with respect to the Certificates due on such Insurance Payment Date, the Trustee shall make a claim under

the Bond Insurance Policy and give notice to the Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest with respect to the Certificates and the amount required to pay principal with respect to the Certificates, confirmed in writing to the Insurer and the Insurer's Fiscal Agent by _____ p.m., _____ time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Bond Insurance Policy.

[In the event the claim to be made is for a mandatory sinking fund prepayment, upon receipt of the moneys due, the Trustee shall authenticate and deliver to affected Certificateholders who surrender their Certificates a new Certificate or Certificates in an aggregate principal amount equal to the unprepaid principal portion of the Certificate surrendered. The Trustee shall designate any portion of payment of principal represented by Certificates paid by the Insurer, whether by virtue of mandatory sinking fund prepayment, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Certificates registered to the then current Certificateholder, whether DTC or its nominee or otherwise, and shall issue a replacement Certificate to the Insurer, registered in the name of the Insurer, in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Certificate shall have no effect on the amount of principal or interest payable by the District with respect to any Certificate or the subrogation rights of the Insurer.]

The Trustee shall keep a complete and accurate record of all funds deposited by the Insurer into the Policy Payments Account (as defined below) and the allocation of such funds to payment of interest on and principal paid in respect of any Certificate. The Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

Upon payment of a claim under the Bond Insurance Policy the Trustee shall establish a "Policy Payments Account" which the Trustee covenants to maintain and hold in trust separate and apart from other funds held by it for the benefit of Certificateholders and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Bond Insurance Policy in trust on behalf of Certificateholders and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to Certificateholders in the same manner as principal and interest payments are to be made with respect to the Certificates under Article II hereof. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay principal and interest with respect to Certificates with other funds available to make such payments.

Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee.

Any funds remaining in the Policy Payments Account following an Interest Payment Date shall promptly be remitted to the Insurer.

The Insurer shall, to the extent it makes any payment of principal or interest with respect to the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy.

On or after an Event of Default, the District shall pay or reimburse the Insurer any and all charge, fees, costs and expenses which the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in this Trust Agreement or the Installment Purchase Agreement (ii) the pursuit of any remedies under this Trust Agreement or the Installment Purchase Agreement or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, whether or not executed or completed, (iv) the violation by the District of any law, rule or regulation, or any judgment, order or decree applicable to it or (v) any litigation or other dispute in connection with this Trust Agreement or the Installment Purchase Agreement or the transactions contemplated thereby, other than amounts resulting from the failure of the Insurer to honor its obligations under the Bond Insurance Policy.]

ARTICLE VI

COVENANTS

Section 6.01. Corporation and District to Perform Installment Purchase Agreement. The Corporation and District covenant and agree with the Owners of the Certificates to perform all obligations and duties imposed on them under the Installment Purchase Agreement and, together with the Trustee, to enforce such Installment Purchase Agreement against the other party thereto in accordance with its terms.

The Corporation and the District will in all respects promptly and faithfully keep, perform and comply with all the terms, provisions, covenants, conditions and agreements of the Installment Purchase Agreement to be kept, performed and complied with by it.

The Corporation and the District agree not to do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Installment Purchase Agreement.

Section 6.02. Budgets. On or prior to the fifteenth day of each Fiscal Year, the District shall certify to the Trustee that the amounts budgeted for payment of Installment Payments are fully adequate for the payment of all Installment Payments due under the Installment Purchase Agreement for such Fiscal Year. If the amounts so budgeted are not adequate for the payment of Installment Payments due under the Installment Purchase Agreement, the District will take such action as may be necessary to cause such annual budget to be amended, corrected or augmented so as to include therein the amounts required to be raised by the District in the then ensuing Fiscal Year for the payment of Installment Payments due under the Installment Purchase Agreement and will notify the Trustee of the proceedings then taken or proposed to be taken by the District.

Section 6.03. Tax Covenants.

(a) *General.* The District hereby covenants with the Owners of the Certificates that, notwithstanding any other provisions of this Installment Purchase Agreement, it shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest on the Certificates under Section 103 of the Code. The District shall not, directly or indirectly, use or permit the use of proceeds of the Certificates or any of the property financed or refinanced with proceeds of the Certificates, or any portion thereof, by any person other than a governmental unit (as such term is used in Section 141 of the Code), in

such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest on the Certificates.

(b) *Use of Proceeds.* The District shall not take any action, or fail to take any action, if any such action or failure to take action would cause the Certificates to be “private activity bonds” within the meaning of Section 141 of the Code, and in furtherance thereof, shall not make any use of the proceeds of the Certificates or any of the property financed or refinanced with proceeds of the Certificates, or any portion thereof, or any other funds of the District, that would cause the Certificates to be “private activity bonds” within the meaning of Section 141 of the Code. To that end, so long as any Certificates are outstanding, the District, with respect to such proceeds and property and such other funds, will comply with applicable requirements of the Code and all regulations of the United States Department of the Treasury issued thereunder and under Section 103 of the Internal Revenue Code of 1954, as amended (the “1954 Code”), to the extent such requirements are, at the time, applicable and in effect. The District shall establish reasonable procedures necessary to ensure continued compliance with Section 141 of the Code (or, if applicable, the 1954 Code) and the continued qualification of the Certificates as “governmental bonds.”

(c) *Arbitrage.* The District shall not, directly or indirectly, use or permit the use of any proceeds of any Certificates, or of any property financed thereby, or other funds of the District, or take or omit to take any action, that would cause the Certificates to be “arbitrage bonds” within the meaning of Section 148 of the Code. To that end, the District shall comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to the Certificates.

(d) *Federal Guarantee.* The District shall not make any use of the proceeds of the Certificates or any other funds of the District, or take or omit to take any other action, that would cause the Certificates to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(e) *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.

(f) *Hedge Bonds.* The District will make no use of the proceeds of the Certificates or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the Certificates 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 Certificates for federal income tax purposes.

(g) *Compliance with Tax Certificate.* In furtherance of the foregoing tax covenants of this Section 6.03, the District covenants that it will comply with the provisions of the Tax Certificate, which is incorporated herein as if fully set forth herein. These covenants shall survive payment in full or defeasance of the Certificates.

Section 6.04. Accounting Records and Reports. The Trustee shall keep or cause to be kept proper books of record and account in which complete and correct entries shall be made of all transactions made by it relating to the receipts, disbursements, allocation and application of the Installment Payments, and such books shall be available upon reasonable prior notice for inspection

by the District and by any Owner of Certificates, or his agent or representative, at reasonable hours and under reasonable conditions. Each month, so long as the Certificates are Outstanding, the Trustee shall furnish to the District a statement covering receipts, disbursements, allocation and application of amounts on deposit in the funds and accounts created hereunder held by it.

Section 6.05. Compliance with Trust Agreement. The Trustee will not execute, or permit to be executed, any Certificates in any manner other than in accordance with the provisions of this Trust Agreement, and the District will not suffer or permit any default by it to occur under this Trust Agreement, but will faithfully observe and perform all the covenants, conditions and requirements hereof.

Section 6.06. Observance of Laws and Regulations. To the extent necessary to assure their performance hereunder, the Corporation and the District will well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them 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 here-after acquired by the Corporation or 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 6.07. Compliance with Contracts. The District shall comply with the terms, covenants and provisions, express or implied, of all contracts for the use of the 2007 Project by the District, and all other contracts and agreements affecting or involving the 2007 Project to the extent that the District is a party thereto.

Section 6.08. Prosecution and Defense of Suits. The District shall promptly, upon request of the Trustee or any Certificate Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Water System or any part thereof, whether now existing or hereafter developing, shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and save the Trustee, the Corporation and every Certificate Owner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

The District shall defend against every suit, action or proceeding at any time brought against the Trustee, the Corporation or any Certificate Owner upon any claim arising out of the receipt, application or disbursement of any of the Installment Payments or involving the rights of the Trustee, the Corporation or any Certificate Owner under this Trust Agreement; provided that the Trustee, the Corporation or any Certificate Owner at such party's election may appear in and defend any such suit, action or proceeding. The District shall indemnify and hold harmless the Trustee, the Corporation and the Certificate Owners against any and all liability claimed or asserted by any person, arising out of such receipt, application or disbursement, and shall indemnify and hold harmless the Certificate Owners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation to which any of them may become a party by reason of ownership of Certificates. The District shall promptly reimburse the Corporation or any Certificate Owner in the full amount of any attorneys' fees or other expenses which the Corporation or such Owner may incur in litigation or otherwise in order to enforce such party's rights under this Trust

Agreement or the Certificates, provided that such litigation shall be concluded favorably to such party's contentions therein.

Section 6.09. Recordation and Filing. The Trustee, upon written direction of the District, shall record, register, file, renew, refile and re-record all such documents, including financing statements, as may be required by law in order to maintain a security interest in this Trust Agreement and the Assignment Agreement, all in such manner, at such times and in such places as may be required by, and to the extent permitted by, law in order fully to preserve, protect and perfect the security of the Certificate Owners and the rights and security interests of the Trustee. The Trustee, upon written direction of the District, shall (subject to Section 8.05) do whatever else may be necessary or be reasonably required in order to perfect and continue the lien of this Trust Agreement and the Assignment Agreement.

Section 6.10. Eminent Domain. If all or any part of the 2007 Project shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain), the Net Proceeds therefrom shall be applied in the manner specified in Section 6.15 of the Installment Purchase Agreement.

Section 6.11. Further Assurances. Whenever and so often as requested so to do by the Trustee or any Certificate Owner, the Corporation and the District will promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things, as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Certificate Owners all rights, interest, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by this Trust Agreement.

Section 6.12. Continuing Disclosure. The District hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of this Trust Agreement, failure of the District to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee may (and, at the request of the Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Certificates and upon receipt of indemnification acceptable to the Trustee, shall) or any Owner of Certificates 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 (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes."

ARTICLE VII

DEFAULT AND LIMITATION OF LIABILITY

Section 7.01. Notice of Non-Payment. In the event of delinquency in the payment of any Installment Payments due by the District pursuant to the Installment Purchase Agreement, the Trustee shall, after one business day following the date upon which such delinquent Installment Payment was due, immediately give written notice of the delinquency and the amount of the delinquency to the District and the Corporation and so long as the Bond Insurance Policy is in full

force and effect, to the Insurer. Notwithstanding any other provision of this Trust Agreement, the Trustee shall immediately notify Insurer if at any time there are insufficient moneys to make any payments of principal and/or interest as required and immediately upon the occurrence of any Event of Default under this Trust Agreement.

Section 7.02. Action on Default or Termination. Upon the occurrence of an Event of Default, which event shall constitute a default hereunder, and in each and every such case during the continuance of such Event of Default, the Trustee or the Owners of not less than a majority in aggregate principal amount of Certificates at the time Outstanding shall at the written direction of Insurer so long as the Bond Insurance Policy is in full force and effect, and shall be entitled, with the written consent of Insurer so long as the Bond Insurance Policy is in full force and effect, in each case upon notice in writing to the District, to exercise the remedies provided to the Corporation in the Installment Purchase Agreement.

Upon declaration of the entire principal amount of the unpaid Installment Payments and the accrued interest thereon to be due and payable immediately and provided such declaration is not rescinded or annulled, all in accordance with Section 8.01 of the Installment Purchase Agreement, the Trustee may apply all moneys received as Installment Payments and all moneys held in any fund or account hereunder to the payment of the entire principal amount of the Certificates and the accrued interest with respect thereto, with interest on the overdue Certificates at the rate or rates of interest applicable to the Certificates if paid in accordance with their terms.

Section 7.03. Other Remedies of the Trustee. The Trustee shall at the written direction of Insurer so long as the Bond Insurance Policy is in full force and effect, and shall have the right with the written consent of Insurer so long as the Bond Insurance Policy is in full force and effect --

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

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

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

Section 7.04. Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract; provided however that so long as the Bond Insurance Policy is in full force and effect, the Trustee shall not waive any default or breach of duty or contract without the written consent of Insurer. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee.

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

Section 7.05. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law.

Section 7.06. No Obligation by the District to Owners. Except for the payment of Installment Payments when due in accordance with the Installment Purchase Agreement and the performance of the other covenants and agreements of the District contained in said Installment Purchase Agreement and herein, the District shall have no obligation or liability to the Owners of the Certificates with respect to this Trust Agreement or the execution, delivery or transfer of the Certificates, or the disbursement of Installment Payments to the Owners by the Trustee; provided however that nothing contained in this Section shall affect the rights, duties or obligations of the Trustee expressly set forth herein.

Section 7.07. Trustee Appointed Agent for Certificateowners; Direction of Proceedings. The Trustee is hereby appointed the agent and attorney of the Owners of all Certificates Outstanding hereunder for the purpose of filing any claims relating to the Certificates. The Owners of a majority in aggregate principal amount of the Certificates Outstanding hereunder shall, upon tender to the Trustee of reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such direction, have the right to direct the method and place of conducting all remedial proceedings by the Trustee, with the written consent of Insurer so long as the Bond Insurance Policy is in full force and effect, provided such direction shall be in accordance with law and the provisions of this Trust Agreement 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 Certificate Owners not parties to such a direction.

Section 7.08. Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding pursuant to Section 7.07 hereof or upon the written direction of Insurer so long as the Bond Insurance Policy is in full force and effect, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Certificates, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default hereunder, discontinue, withdraw, compromise or settle, or otherwise dispose of, any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of at least a majority in principal amount of the Certificates Outstanding hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation; provided further, however, that the Trustee shall not discontinue, withdraw, compromise or settle, or otherwise dispose of, any such litigation without the written consent of Insurer so long as the Bond Insurance Policy is in full force and effect.

Section 7.09. Limitation on Certificate Owners' Right to Sue. No Owner of any Certificate executed and delivered hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Trust Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default hereunder; (b) the Owners of at least a majority in aggregate principal amount of all the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted 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.

Such notification, request, tender or indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Certificates of any remedy hereunder; it being understood and intended that no one or more Owners of Certificates shall have any right in any manner whatever by his or their action to enforce any right under this Trust Agreement, except in the manner herein provided, and that all proceedings at law or in equity to enforce any provision of this Trust Agreement shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Owners of the Outstanding Certificates.

The right of any Owner of any Certificate to receive payment of the principal of (and premium, if any) and interest on such Certificate out of Revenues, as herein and therein provided, on and after the respective due dates expressed in such Certificate, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Owner, notwithstanding the foregoing provisions of this Section or Section 7.10 or any other provision of this Trust Agreement.

Section 7.10. No Obligation with Respect to Performance by Trustee. Neither the District nor the Corporation shall have any obligation or liability to any of the other parties hereto or to the Owners of the Certificates with respect to the performance by the Trustee of any duty imposed upon it under this Trust Agreement.

Section 7.11. No Liability to Owners for Payment. The Corporation shall not have any obligation or liability to the Owners of the Certificates with respect to the payment of the Installment Payments by the District when due, or with respect to the performance by the District of any other covenant made by it in the Installment Purchase Agreement or herein. Except as provided in this Trust Agreement, the Trustee shall not have any obligation or liability to the Owners of the Certificates with respect to the payment of the Installment Payments by the District when due, or with respect to the performance by the District of any other covenant made by it in the Installment Purchase Agreement or herein.

Section 7.12. No Responsibility for Sufficiency. The Trustee shall not be responsible for the sufficiency of this Trust Agreement, the Installment Purchase Agreement, or of the assignment made to it by the Assignment Agreement of rights to receive Installment Payments pursuant to the Installment Purchase Agreement, or the value of or title to the 2007 Project. The Trustee shall not be responsible or liable for selection or liquidation of investments or any loss suffered in connection with any investment of funds made by it under the terms of and in accordance with this Trust Agreement.

Section 7.13. Indemnification of Trustee. The District shall indemnify the Trustee and hold it harmless against any loss, liability, expenses or advances, including but not limited to fees and expenses of counsel and other experts, incurred or made without negligence or willful misconduct on the part of the Trustee, (i) in the exercise and performance of any of the powers and duties hereunder or under the Installment Purchase Agreement by the Trustee, (ii) relating to or arising out of the 2007 Project, or the conditions, occupancy, use, possession, conduct or management of, or work done in or about, or from the planning, design, acquisition, installation or construction of the 2007 Project or any part thereof, or (iii) arising out of or relating to any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading in any official statement or other offering circular utilized in connection with the sale of the Certificates, including the costs and expenses of defending itself against any claim of liability arising under this Trust Agreement. Such indemnity shall survive payment of the Certificates and discharge of this Trust Agreement or resignation or removal of the Trustee.

Section 7.14. Insurer's Rights. Anything in this Trust Agreement to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under this Trust Agreement.

Notwithstanding anything in the Installment Purchase Agreement or herein, the Trustee, in determining whether an Event of Default has occurred in the due and punctual payment of any Installment Payment or whether a payment on any Installment Payment has been made under the Installment Purchase Agreement, no effect shall be given to payments made under the Bond Insurance Policy.

ARTICLE VIII

THE TRUSTEE

Section 8.01. Employment of Trustee. In consideration of the recitals hereinabove set forth and for other valuable consideration, the District hereby agrees to employ the Trustee to receive, hold, invest and disburse the moneys received pursuant to the Installment Purchase Agreement for credit to the various funds and accounts established by this Trust Agreement; to execute, deliver and transfer the Certificates; and to apply and disburse the Installment Payments received from the District to the Owners of Certificates; and to perform certain other functions; all as herein provided and subject to the terms and conditions of this Trust Agreement.

Section 8.02. Acceptance of Employment. In consideration of the compensation herein provided for, the Trustee accepts the employment above referred to subject to the terms and conditions of this Trust Agreement.

Section 8.03. Trustee; Duties, Removal and Resignation. By executing and delivering this Trust Agreement, the Trustee accepts the duties and obligations of the Trustee provided in this Trust Agreement, but only upon the terms and conditions set forth in this Trust Agreement.

The District may, with the written consent of Insurer so long as the Bond Insurance Policy is in full force and effect, by written request to the Trustee, remove the Trustee and appoint a successor Trustee; provided, however, that if the District is in default under the Installment Purchase

Agreement, the Owners of a majority in aggregate principal amount of all Certificates Outstanding, with the written consent of Insurer so long as the Bond Insurance Policy is in full force and effect, or Insurer so long as the Bond Insurance Policy is in full force and effect may, by written request to the Trustee, remove the Trustee and appoint a successor Trustee. The Trustee may be removed at any time at the request of the Insurer, for any breach of the trust set forth herein. Any such successor shall be a bank or trust company doing business and having a corporate trust office in California, which has (or the parent holding company of which has) a combined capital (exclusive of borrowed capital) and surplus of at least seventy-five million dollars (\$75,000,000) and subject to supervision or examination by federal or state authorities and, so long as the Bond Insurance Policy is in full force and effect, shall be approved in writing by Insurer. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining Corporation above referred to, then for the purposes of this Section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice to the District and, so long as the Bond Insurance Policy is in full force and effect, to Insurer and by giving to the Certificate Owners notice of such resignation by mail at the addresses shown on the registration books maintained by the Trustee. Upon receiving such notice of resignation, the District shall promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event that the District does not appoint a successor Trustee within thirty (30) days following receipt of such notice of resignation, the resigning Trustee may at the expense of the District petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective upon written acceptance of appointment by the successor Trustee.

Section 8.04. Compensation of the Trustee. The District shall from time to time, subject to any agreement in effect with the Trustee, pay to the Trustee reasonable compensation for its services and shall reimburse the Trustee for all its advances and expenditures, including but not limited to advances to and fees and expenses of independent appraisers, accountants, consultants, counsel, agents and attorneys-at-law or other experts employed by it in the exercise and performance of its powers and duties hereunder. Such compensation and reimbursement shall be paid by the District and amounts owing therefor shall constitute a charge on the moneys in the Certificate Payment Fund and payable by the District; provided, however, that the Trustee shall not otherwise have any claims, except in accordance with Section 7.13 hereof and Section 8.02 of the Installment Purchase Agreement, or lien for payment of compensation for its services against any other moneys held by it in the funds or accounts established hereunder but may take whatever legal actions are lawfully available to it directly against the District. The obligations of the District under this Section shall survive resignation or removal of the Trustee and payment of the Certificates and discharge of this Trust Agreement.

Section 8.05. Protection of the Trustee. The Trustee shall be protected and shall incur no liability in acting or refraining from acting or proceeding in good faith upon any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition, order, facsimile transmission, electronic mail or other paper or document which it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of this Trust Agreement, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy

of such statements. The Trustee shall not be bound to recognize any person as an Owner of any Certificate or to take any action at the request of any such person unless such Certificate shall be deposited with the Trustee or satisfactory evidence of the ownership of such Certificate shall be furnished to the Trustee. The Trustee may consult with counsel, who may be counsel to the Corporation or 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 in accordance therewith.

Whenever in the administration of its duties under this Trust Agreement, 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) shall be deemed to be conclusively proved and established by a certificate of the Corporation or the District and such certificate shall be full warranty to the Trustee for any action taken or suffered under the provisions of this Trust Agreement upon the faith thereof, but in its discretion the Trustee may (but shall have no duty), in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Certificates provided pursuant to this Trust Agreement, and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to this Trust Agreement. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the District or the Corporation, and may act as depository, trustee, or agent for any committee or body of Owners of Certificates or of obligations of the Corporation or the District as freely as if it were not Trustee hereunder.

The Trustee may, to the extent reasonably necessary, execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents, or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its duties hereunder, and the Trustee shall not be answerable for the default or misconduct of any such attorney, agent or receiver selected by it with reasonable care. The Trustee shall not be answerable for the exercise of any discretion or power under this Trust Agreement or in the performance of its duties hereunder or for anything whatever in connection with the funds and accounts established hereunder, except only for its own willful misconduct or negligence.

The recitals, statements and representations by the District or the Corporation contained in this Trust Agreement or in the Certificates shall be taken and construed as made by and on the part of the District or Corporation and not by the Trustee and the Trustee does not assume, and shall not have, any responsibility or obligations for the correctness of any thereof.

The Trustee undertakes to perform such duties, and only such duties as are specifically set forth in this Trust Agreement and no implied duties or obligations shall be read into this Trust Agreement against the Trustee.

No provision in this Trust Agreement shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not assured to it.

In accepting the trust hereby created, the Trustee acts solely as Trustee for the Owners and not in its individual capacity and all persons, including without limitation the Owners and the District or the Corporation having any claim against the Trustee arising from this Trust Agreement shall look only to the funds and accounts held by the Trustee hereunder for payment except as otherwise provided herein. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Certificates.

The Trustee makes no representation or warranty, express or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the District or the Corporation of the 2007 Project. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Installment Purchase Agreement or this Trust Agreement for the existence, furnishing or use of the 2007 Project.

The Trustee shall not be deemed to have knowledge of any Event of Default hereunder or under the Installment Purchase Agreement unless and until it shall have actual knowledge thereof or have received notice thereof at its corporate trust office at the address set forth in Section 11.16 hereof. The Trustee shall, during the existence of any Event of Default (which has not been cured) use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

The Trustee shall not be accountable for the use or application by the District, or the Corporation or any other party of any funds which the Trustee has released in accordance with the terms of this Trust Agreement.

Section 8.06. Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business (provided such company is eligible under Section 8.03 hereof), shall be the successor to the Trustee without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

Section 8.07. Force Majeure. 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 or 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 project, 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.

Section 8.08. Insurer Voting. Notwithstanding anything contained in this Article VIII, so long as the Bond Insurance Policy is in full force and effect, the Insurer shall be deemed to be the owner of all Certificates for purposes of exercising any voting right or privilege or giving any consent or direction or taking any other action pursuant to this Article VIII.

Section 8.09. Notices. Notwithstanding any other provision hereof, the Trustee shall immediately notify the Insurer if at any time there are insufficient moneys to make any Installment Payments as required and within 30 days upon the occurrence of any event of default hereunder.

ARTICLE IX

AMENDMENT OF TRUST AGREEMENT

Section 9.01. Amendments Permitted. (a) This Trust Agreement and the rights and obligations of the District and of the Owners of the Certificates and of the Trustee may be modified or amended at any time by an amendment hereto which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in Section 11.04 hereof, and, so long as the Bond Insurance Policy is in full force and effect, the written consent of Insurer shall have been filed with the Trustee. No such modification or amendment shall (1) extend the stated maturities of the Certificates, or reduce the rate of interest represented thereby, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any premium payable on the prepayment thereof; without the consent of the Owner of each Certificate so affected, or (2) reduce the aforesaid percentage of Owners of Certificates whose consent is required for the execution of any amendment or modification of this Trust Agreement, or (3) modify any of the rights or obligations of the Trustee or the Corporation without its written consent thereto.

(b) This Trust Agreement and the rights and obligations of the Corporation and the District and of the Owners of the Certificates may also be modified or amended at any time by an amendment hereto which shall become binding upon adoption, without the consent of the Owners of any Certificates, but only to the extent permitted by law and only for any one or more of the following purposes --

(1) to add to the covenants and agreements of the Corporation or the District contained in this Trust Agreement other covenants and agreements thereafter to be observed or to surrender any right or power herein reserved to or conferred upon the Corporation or the District, and which shall not adversely affect the interests of the Owners of the Certificates;

(2) to cure, correct or supplement any ambiguous or defective provision contained in this Trust Agreement or in regard to questions arising under this Trust Agreement, as the Corporation or the District may deem necessary or desirable and which shall not adversely affect the interests of the Owners of the Certificates; and

(3) to make such other amendments or modifications as may be in the best interests of the Owners of the Certificates.

Any provision of this Trust Agreement expressly recognizing or granting rights in or to Insurer may not be amended in any manner which affects the rights of Insurer hereunder without the prior written consent of Insurer. Copies of any amendments pursuant to Article IX shall be sent to Standard and Poor's.

Section 9.02. Endorsement or Replacement of Certificates After Amendment or Supplement. After the effective date of any action taken as hereinabove provided, the Trustee may determine that the Certificates may bear a notation by endorsement in form approved by the Trustee

as to such action, and in that case upon demand of the Trustee to the Owner of any Outstanding Certificate and presentation of such Owner's Certificate for such purpose at the principal corporate trust office of the Trustee a suitable notation as to such action shall be made on such Certificate. If the Trustee shall so determine, new Certificates so modified as in the opinion of the Trustee shall be necessary to conform to such action shall be prepared, and in that case upon demand of the Trustee to the Owner of any Outstanding Certificates such new Certificates shall be exchanged at the principal corporate trust office of the Trustee without cost to each Owner for Certificates then Outstanding upon surrender of such Outstanding Certificates.

Section 9.03. Amendment of Particular Certificates. The provisions of this article shall not prevent any Owner from accepting any amendments to the particular Certificates held by him, provided that due notation thereof is made on such Certificates.

ARTICLE X

DEFEASANCE

Section 10.01. Discharge of Trust Agreement. When the obligations of the District under the Installment Purchase Agreement shall cease pursuant to Article IX of the Installment Purchase Agreement (except for the right of the Trustee and the obligation of the District to have the money and Permitted Investments mentioned therein applied to the payment of Installment Payments as therein set forth and the obligation to apply moneys on deposit in the Rebate Fund as provided in Section 5.06), then and in that case the obligations created by this Trust Agreement shall thereupon cease, terminate and become void except for the obligation of the District to direct the Trustee to apply money on deposit in the Rebate Fund as provided herein which shall continue until such moneys are so applied and the right of the Owners to have applied and the obligation of the Trustee to apply such moneys and Permitted Investments to the payment of the Certificates as herein set forth, and subject to application of moneys on deposit in the Rebate Fund as provided in Section 5.06, the Trustee shall turn over to the District, after provision for payment of amounts due the Trustee hereunder, as an overpayment of Installment Payments, any surplus in the Certificate Payment Fund and all balances remaining in any other funds or accounts other than moneys and Permitted Investments held for the payment of the Certificates at maturity or on prepayment, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the benefit of the Owners and shall be applied by the Trustee to the payment, when due, of the principal and interest and premium, if any, represented by the Certificates, and after such payment, this Trust Agreement shall become void.

If moneys or Defeasance Obligations are deposited with and held by the Trustee as hereinabove provided, the Trustee shall within thirty (30) days after such Defeasance Obligations shall have been deposited with it, mail a notice, first class postage prepaid, to the Owners at the addresses listed on the registration books kept by the Trustee pursuant to Section 2.08, setting forth (a) the date fixed for prepayment of the Certificates, (b) a description of the Defeasance Obligations so held by it, and (c) that this Trust Agreement has been released in accordance with the provisions of this Section.

Notwithstanding anything in this Trust Agreement or the Installment Purchase Agreement, to the contrary, in the event that the principal and/or interest due with respect to the Certificates shall be paid by Insurer pursuant to the Bond Insurance Policy, the Certificates shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the District, and the

assignment and pledge of the Revenues and all covenants, agreements and other obligations of the District to the Owners shall continue to exist and shall run to the benefit of Insurer, and Insurer shall be subrogated to the rights of such Owners. In the event of an advance refunding, the District shall cause to be delivered a verification report of an independent nationally recognized certified public accountant. If a forward supply contract is employed in connection with a refunding, (i) such verification report shall expressly state that the adequacy of the escrow to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement shall provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement, the terms of the escrow agreement or authorizing document, if applicable, shall be controlling.

Section 10.02. Deposit of Money or Securities with Trustee. Whenever in this Trust Agreement or the Installment Purchase Agreement 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 or prepay any Certificates, the money or securities to be so deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to this Trust Agreement and shall be --

(a) lawful money of the United States of America in an amount equal to the principal amount represented by such Certificates and all unpaid interest represented thereby to maturity, except that, in the case of Certificates which are to be prepaid prior to maturity and in respect of which notice of such prepayment shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Prepayment Price and all unpaid interest to such date of prepayment if any, represented by such Certificates; or

(b) non-callable securities described in clause (1) of the definition of Permitted Investments which will provide money sufficient to pay the principal at maturity or upon prepayment plus all accrued interest to maturity or to the prepayment date, as the case may be, represented by the Certificates to be paid or prepaid, as such amounts become due, plus premium, if any, provided that, in the case of Certificates which are to be prepaid prior to the maturity thereof, notice of such prepayment shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of this Trust Agreement and the Installment Purchase Agreement or by Written Request of the District) to apply such money or securities to the payment of such principal or Prepayment Price and interest represented by such Certificates.

Section 10.03. Unclaimed Moneys. Anything contained herein to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of the interest or principal or Prepayment Price represented by any of the Certificates which remain unclaimed for two years after the date of deposit of such moneys if deposited with the Trustee after the date when the interest and principal or Prepayment Price represented by such Certificates have become payable, shall at the Written Request of the District be repaid by the Trustee to the District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of the interest and principal or Prepayment Price represented by such Certificates; provided, however, that before being required to make any such payment to the District, the Trustee shall, at the written request and

expense of the District, first mail a notice to the Owners of the Certificates so payable that such moneys remain unclaimed and that after a date named in such notice, which date shall not be less than thirty (30) days after the date of the mailing of such notice, the balance of such moneys then unclaimed will be returned to the District.

ARTICLE XI

MISCELLANEOUS

Section 11.01. Benefits of Trust Agreement Limited to Parties. Nothing contained herein, expressed or implied, is intended to give to any person other than the District, the Trustee, the Corporation, Insurer so long as the Bond Insurance Policy is in full force and effect and the Owners any claim, remedy or right under or pursuant hereto, and any agreement, condition, covenant or term required herein to be observed or performed by or on behalf of the District shall be for the sole and exclusive benefit of the Trustee, the Corporation, Insurer so long as the Bond Insurance Policy is in full force and effect and the Owners.

Section 11.02. Successor Deemed Included in all References to Predecessor. Whenever either the District, the Corporation or the Trustee or any officer thereof is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the District, the Corporation or the Trustee or such officer, and all agreements, conditions, covenants and terms required hereby to be observed or performed by or on behalf of the District, the Corporation or the Trustee or any officer thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Section 11.03. Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required herein to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or such Owner's attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing 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, or by such other proof as the Trustee may accept which it may deem sufficient.

The ownership of any Certificates and the amount, payment date, number and date of owning the same may be proved by the books required to be kept by the Trustee pursuant to the provisions of Section 2.08.

Any declaration, request or other instrument in writing of the Owner of any Certificate shall bind all future Owners of such Certificate with respect to anything done or suffered to be done by the District or the Trustee in good faith and in accordance therewith.

Section 11.04. Disqualified Certificates. Certificates owned or held by or for the account of the Corporation or the District (but excluding Certificates held in any pension or retirement fund) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates provided for in this Trust Agreement, and shall not be entitled to consent to or take any other action provided for in this Trust Agreement.

The Trustee may adopt appropriate regulations to require each Owner of Certificates, before his consent provided for in this Trust Agreement shall be deemed effective, to reveal if the Certificates as to which such consent is given are disqualified as provided in this Section.

Section 11.05. Waiver of Personal Liability. No director, officer or employee of the District or the Corporation shall be individually or personally liable for the payment of the interest or principal or the prepayment premiums, if any, represented by the Certificates, but nothing contained herein shall relieve any director, officer or employee of the District or Corporation from the performance of any official duty provided by any applicable provisions of law or by the Installment Purchase Agreement or hereby.

Section 11.06. Acquisition of Certificates by District; Destruction of Certificates. All Certificates acquired by the District, whether by purchase or gift or otherwise, shall be surrendered to the Trustee for cancellation. Whenever in this Trust Agreement provision is made for the cancellation by the Trustee of any Certificates, the Trustee shall destroy such Certificates and upon written request deliver a certificate of such destruction to the District.

Section 11.07. Headings. Headings preceding the text of the several Articles and Sections hereof, and the table of contents, are solely for convenience of reference and shall not constitute a part of this Trust Agreement or affect its meaning, construction or effect.

All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Trust Agreement; and the words "herein," "hereof," "hereunder" and other words of similar import refer to this Trust Agreement as a whole and not to any particular Article, Section or subdivision hereof.

Section 11.08. Funds and Accounts. Any fund required by this Trust Agreement 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 shall at all times be maintained in accordance with sound corporate trust industry practices and with due regard for the protection of the security of the Certificates and the rights of every Owner thereof.

Section 11.09. Partial Invalidity. If any one or more of the agreements, conditions, covenants or terms required herein to be observed or performed by or on the part of the District, the Corporation or the Trustee shall be contrary to law, then such agreement or agreements, such condition or conditions, such covenant or covenants or such term or terms shall be null and void and shall be deemed separable from the remaining agreements, conditions, covenants and terms hereof and shall in no way affect the validity hereof or of the Certificates, and the Owners shall retain all the benefit, protection and security afforded to them under any applicable provisions of law. The District, the Corporation and the Trustee hereby declare that they would have executed this Trust Agreement, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof and would have authorized the execution and delivery of the Certificates pursuant hereto irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstances may be held to be unconstitutional, unenforceable or invalid.

Section 11.10. California Law. THIS TRUST AGREEMENT SHALL BE CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE.

Section 11.11. Consent of Insurer. Unless otherwise provided in this Trust Agreement, Insurer's consent shall be required for initiation or approval of any action which requires Owner consent and, while Insurer is not in default, Insurer consent may be obtained in lieu of Owner consent.

Section 11.12. Effect of Actions on Owners. Notwithstanding any other provision of this Trust Agreement, in determining whether the rights of the Owners shall be adversely affected by any action taken pursuant to the terms and provisions of this Trust Agreement, the Trustee shall consider the effect on the Owners as if there were no Bond Insurance Policy.

Section 11.13. Insurer As Third Party Beneficiary. To the extent that this Trust Agreement confers upon or gives or grants to Insurer any right, remedy or claim under or by reason of this Trust Agreement Insurer is explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.

Section 11.14. Insurer to be Deemed Owner: Rights of the Insurer.

(a) Notwithstanding any provision of this Trust Agreement to the contrary, the Insurer shall be deemed the sole Owner of the Outstanding Certificates for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners are entitled to take pursuant to Article V and Article VIII of this Trust Agreement or the Installment Purchase Agreement, and no amendment or supplement to this Trust Agreement or the Installment Purchase Agreement may become effective except upon obtaining the prior written consent of the Insurer; provided, however, that the rights of the Insurer to direct or consent to District, Trustee or Certificate Owner actions under the Installment Purchase Agreement shall be suspended during any period in which the Insurer is in default in its payment obligations under the Bond Insurance Policy (except to the extent of amounts previously paid by the Insurer and due and owing to the Insurer) and shall be of no force or effect in the event the Bond Insurance Policy is no longer in effect or the Insurer asserts that the Bond Insurance Policy is not in effect or the Insurer shall have provided written notice that it waives such rights.

(b) In the event that the principal or interest represented by a Certificate shall be paid by the Insurer pursuant to the terms of the Bond Insurance Policy, such principal and interest shall not be deemed paid for purposes of this Trust Agreement or the Installment Purchase Agreement and shall continue to be due and owing until paid by the District in accordance with the Installment Purchase Agreement and this Trust Agreement, and such Certificate shall (to the extent of such principal and interest) remain Outstanding under this Trust Agreement.

(c) The Insurer shall be included as a party in interest and as a party entitled to (i) notify the District, the Trustee, if any, or any applicable receiver of the occurrence of an event of default and (ii) request the Trustee or receiver to intervene in judicial proceedings that affect the Certificates or the security therefor. The Trustee or receiver shall be required to accept notice of an Event of Default from the Insurer.

Section 11.15. Notice to Rating Agency. The Trustee shall promptly upon execution and delivery mail by first class mail to S&P a copy of each amendment to this Trust Agreement to which the Insurer has previously consented in writing.

Section 11.16. Notices To Be Given To Insurer. So long as the Bond Insurance Policy is in full force and effect, the District or the Trustee, as applicable, shall furnish to Insurer:

(a) Notice of the redemption, other than mandatory sinking fund redemption, of any of the Certificates, or of any advance refunding of the Certificates, including the principal amount, maturities and CUSIP numbers thereof;

(b) Notice of the downgrading by any rating agency of the Issuer's or Obligor's underlying public rating, or the underlying rating on the Certificates or any Contracts or Bonds, to "non-investment grade;"

(c) Notice of any rate covenant violation with respect to the Certificates;

(d) Notice of any material events pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934, as amended; and

(e) Such additional information as Insurer may reasonably request from time to time.

The Trustee or District, as applicable, shall notify Insurer of any failure of the District to provide relevant notices, certificates, or other similar documents.

The Trustee shall notify Insurer of any failure of the District to provide relevant notices, certificates, or other similar documents.

The District will permit Insurer to discuss the affairs, finances and accounts of the District or any information Insurer may reasonably request regarding the security for the Certificates with appropriate officers of the District. The Trustee or the District, as applicable, will permit Insurer to have access to the 2007 Project and have access to and to make copies of all books and records relating to the Certificates at any reasonable time.

Section 11.17. Notices. All written notices to be given under this Trust Agreement to the parties hereto shall be given by mail or personal delivery to the party entitled thereto at its address set forth below, or at such address as the party may provide to the other parties in writing from time to time.

If to the District: Otay Water District
2554 Sweetwater Springs Boulevard
Spring Valley, CA 91977
Attention: General Manager

If to the Corporation: Otay Service Corporation
2554 Sweetwater Springs Boulevard
Spring Valley, CA 91977
Attention: President

If to the Trustee: Union Bank of California, N.A.
120 San Pedro Street, Suite 400
Los Angeles, CA 90012
Attention: Corporate Trust Department

If to the Insurer: _____

Section 11.18. Action Not on Business Day. Except as otherwise specifically provided in this Trust Agreement, if any date specified for the payment of any principal or interest on any Certificate or the performance of any act falls on a day which is not a Business Day, such payment or performance shall be made on the next succeeding Business Day with the same effect as if made on such date. In the case of the payment of the principal of or the interest on any Certificate which shall be due on a day which is not a Business Day, and such payment is made on the next succeeding Business Day, no additional interest shall accrue as a result of such delayed payment.

Section 11.19. Reimbursement of Expenses. The District shall pay or reimburse the Insurer for any and all charges, fees, costs, and expenses that the Insurer may reasonably pay or incur in connection with the following: (i) the administration, enforcement, defense, or preservation of any rights or security hereunder or under the Installment Purchase Agreement; (ii) the pursuit of any remedies hereunder, under the Installment Purchase Agreement, or otherwise afforded by law or equity; (iii) any amendment, waiver, or other action with respect to or related to this Trust Agreement or the Installment Purchase Agreement whether or not executed or completed; (iv) the violation by the District of any law, rule, or regulation or any judgment, order or decree applicable to it; (v) any advances or payments made by the Insurer to cure defaults of the District under this Trust Agreement or the Installment Purchase Agreement; or (vi) any litigation or other dispute in connection with this Trust Agreement, the Installment Purchase Agreement, or the transactions contemplated hereby or thereby, other than amounts resulting from the failure of the Insurer to honor its payment obligations under the Bond Insurance Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver, or consent proposed in respect of this Trust Agreement or the Installment Purchase Agreement. The obligation of the District to the Insurer shall survive discharge and termination of this Trust Agreement.

Section 11.20. Execution in Counterparts. This Trust Agreement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

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

OTAY SERVICE CORPORATION

By: _____
Its: President

ATTEST:

Secretary

OTAY WATER DISTRICT

By: _____
Its: President

ATTEST:

Secretary

UNION BANK OF CALIFORNIA, N.A., as Trustee

By: _____
Its: Authorized Officer

EXHIBIT A

FORM OF CERTIFICATE OF PARTICIPATION

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE SECURITIES DEPOSITORY (AS DEFINED IN THE TRUST AGREEMENT) TO THE TRUSTEE FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE SECURITIES DEPOSITORY (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE SECURITIES 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.

**UNITED STATES OF AMERICA
STATE OF CALIFORNIA
COUNTY OF SAN DIEGO**

**OTAY WATER DISTRICT
REVENUE CERTIFICATE OF PARTICIPATION
(2007 WATER SYSTEM PROJECT)
SERIES 2007**

**Evidencing an Interest of the Owner Hereof
in Installment Payments to be Made by the**

OTAY WATER DISTRICT

<i>INTEREST RATE</i>	<i>CERTIFICATE PAYMENT DATE</i>	<i>ORIGINAL ISSUE DATE</i>	<i>CUSIP</i>
____%	September 1, 20__	_____, 2007	688818 ____

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: _____
AND NO/100 DOLLARS

THIS IS TO CERTIFY that the Registered Owner (specified above) of this Certificate of Participation (herein called the "Certificate") is the owner of an undivided interest in the right to receive certain Installment Payments (as that term is defined in the Trust Agreement hereinafter mentioned) under that certain Installment Purchase Agreement, dated as of _____, 2007 (the "Installment Purchase Agreement"), by and between the Otay Service Corporation (the "Corporation") and the Otay Water District (the "District"). The Installment Payments to be

made thereunder have been assigned to Union Bank of California, N.A., as trustee (the "Trustee"), having a corporate trust office in Los Angeles, California. The Trustee has executed and delivered \$42,000,000* aggregate principal amount of Certificates.

The Registered Owner of this Certificate is entitled to receive, subject to the terms of the Installment Purchase Agreement and the Trust Agreement, on the Certificate Payment Date (specified above) the Principal Amount (specified above) representing a portion of the Installment Payments designated as principal coming due on the Certificate Payment Date, and to receive an interest component on such principal component at the interest rate per annum specified above, from the Interest Payment Date (as hereinafter defined) next preceding the date of execution hereof by the Trustee, unless such date of execution is after a Record Date (as hereinafter defined) and on or before the succeeding Interest Payment Date, in which case interest shall be payable from such Interest Payment Date, or unless such date of execution is on or before the first Record Date, in which case interest shall be payable from Closing Date; provided, however, that if, as shown by the records of the Trustee, interest represented by this Certificate shall be in default, Certificates executed in exchange for this Certificate surrendered for transfer or exchange shall represent interest from the last date to which interest has been paid in full or duly provided for with respect to this Certificate, or, if no interest has been paid or duly provided for with respect to this Certificate, from Closing Date. Interest with respect to this Certificate shall be paid on March 1 and September 1 in each year, commencing September 1, 2007 (each, an "Interest Payment Date"), and continuing to and including the Certificate Payment Date or the date of prior prepayment hereof, whichever is earlier. Interest with respect to this Certificate shall be calculated on the basis of a 360 day year of twelve 30-day months. The principal with respect hereto and prepayment premiums, if any, are payable in lawful money of the United States of America upon presentation and surrender at the principal corporate trust office of the Trustee in Los Angeles, California. Interest with respect hereto is payable by check or draft of the Trustee mailed by first class mail on each Interest Payment Date to the Registered Owner hereof as of the close of business on the fifteenth day of the calendar month prior to such Interest Payment Date (the "Record Date") at the address shown on the registration books maintained by the Trustee or, upon the written request received by the Trustee of an Owner of at least \$1,000,000 in aggregate principal amount of Certificates, by wire transfer of immediately available funds to an account in the United States designated by such Owner prior to the applicable Record Date, except, in each case that, if and to the extent that there shall be a default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the owner in whose name this Certificate is registered at the close of business on a special record date as determined by the Trustee.

The District has certified that all acts, conditions and things required by the Constitution and statutes of the State of California and the Trust Agreement to exist, to have happened and to have been performed precedent to and in the delivery of this Certificate, do exist, have happened and have been performed in due time, form and manner as required by law.

This Certificate has been executed by the Trustee pursuant to the terms of a Trust Agreement, dated as of _____, 2007, by and among the Trustee, the Corporation and the District (the "Trust Agreement"). Copies of the Trust Agreement and the Installment Purchase Agreement are on file at the corporate trust office of the Trustee in Los Angeles, California, and reference is made to the Trust Agreement and the Installment Purchase Agreement and any and all amendments thereto for a description of the pledges and covenants securing the Certificates, the nature, extent and manner

* Preliminary

of enforcement of such pledges, the rights and remedies of the registered owners of the Certificates with respect thereto and the other terms and conditions upon which the Certificates are delivered thereunder.

The Certificates are payable from Installment Payments and other amounts on deposit in certain funds and accounts held under the Trust Agreement, including but not limited to the Reserve Fund, all in accordance therewith. All Taxes and Revenues and all amounts on deposit, respectively, in the Tax Fund and Revenue Fund (as such terms are defined in the Installment Purchase Agreement) are irrevocably pledged to the payment of the Installment Payments and the Taxes and Revenues shall not be used for any other purpose while any of the Installment Payments remain unpaid; provided that out of Taxes and Revenues and amounts on deposit in the Tax Fund and Revenue Fund there may be apportioned such sums for such purposes as are expressly permitted in the Installment Purchase Agreement. Such pledge constitutes a first and exclusive lien on Taxes and Revenues and all amounts on deposit in the Tax Fund and Revenue Fund on a parity with the pledge under the 1996 Installment Sale Agreement and the 2004 Installment Purchase Agreement and, subject to application of amounts on deposit therein as permitted in the Installment Purchase Agreement, the Tax Fund, the Revenue Fund and accounts created under the Installment Purchase Agreement for the payment of the Installment Payments and all other Contracts and Bonds (as such terms are defined in the Installment Purchase Agreement) in accordance with the terms of the Installment Purchase Agreement and the Trust Agreement. The obligation of the District to make Installment Payments is a special obligation of the District payable solely from Taxes and Revenues (as defined in the Installment Purchase Agreement) and other funds described in the Installment Purchase Agreement and does not constitute a debt of the District or the State of California or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

The Certificates are authorized to be executed and delivered in the form of fully registered Certificates in the denomination of \$5,000 each or any integral multiple thereof; provided that no Certificate shall have principal represented thereby maturing in more than one year. Subject to the limitations and conditions and upon payment of the taxes and governmental charges, if any, as provided in the Trust Agreement, Certificates may be exchanged for a like aggregate principal amount of Certificates of the same Certificate Payment Date of other authorized denominations at the principal corporate trust office of the Trustee in Los Angeles, California.

This Certificate is transferable by the Registered Owner hereof, in person or by such person's duly authorized attorney, at said office of the Trustee, but only in the manner, subject to the limitations and upon payment of the taxes and governmental charges provided in the Trust Agreement, and upon surrender of this Certificate for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee. Upon such transfer a new Certificate or Certificates, of the same Certificate Payment Date and of authorized denomination or denominations, for a like aggregate principal amount will be delivered to the transferee in exchange herefor. The Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the Trustee shall not be affected by any notice to the contrary.

The Trustee shall not be required to register the transfer or exchange of any Certificate (i) within 15 days preceding selection of Certificates for prepayment or (ii) selected for prepayment.

The Certificates are subject to mandatory prepayment prior to their respective stated maturities, as a whole, or in part in the order of maturity as directed by the District in a written

request to the Trustee and by lot within each maturity, on any date, in integral multiples of \$5,000, from prepaid Installment Payments made by the District from Net Proceeds (as defined in the Installment Purchase Agreement), upon the terms and conditions of, and as provided for in the Trust Agreement and the Installment Purchase Agreement, at a prepayment price equal to the principal amount thereof plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

The Certificates with stated maturities on or after September 1, 2017, are subject to prepayment prior to their respective stated maturities, as a whole or in part, in the order of maturity as directed by the District in a written request provided to the Trustee and by lot within each maturity, in integral multiples of \$5,000 on any date, on or after September 1, 2016, from optional prepayments of Installment Payments made by the District pursuant to the Installment Purchase Agreement, at a prepayment price equal to the principal amount of such Certificates to be prepaid plus interest accrued to the date fixed for prepayment, without premium.

As provided in the Trust Agreement, notice of prepayment hereof shall be mailed, first class postage prepaid, not less than 30 nor more than 60 days prior to the prepayment date, to the Registered Owner of this Certificate at the address thereof appearing on the Certificate registration books. If this Certificate is called for prepayment and payment is duly provided therefor as specified in the Trust Agreement, interest represented hereby shall cease to accrue from and after the date fixed for prepayment. Any defect in the notice or the mailing will not affect the validity of the prepayment of this Certificate.

With respect to any notice of optional prepayment of Certificates, such notice may state that such prepayment shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such prepayment of moneys sufficient to pay the principal of, premium, if any, and interest with respect to such Certificates to be prepaid and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Trustee shall not be required to prepay such Certificates. In the event that such notice of prepayment contains such a condition and such moneys are not so received, the prepayment shall not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of prepayment was given, that such moneys were not so received.

To the extent and in the manner permitted by the terms of the Trust Agreement and the Installment Purchase Agreement, as the case may be, the Trust Agreement and the rights and obligations of the District and of the registered owners of the Certificates and of the Trustee or the Installment Purchase Agreement and the rights and obligations of the Corporation and the District and the registered owners of the Certificates and the Trustee, respectively, may be modified or amended with the written consents of the registered owners of a majority in aggregate principal amount of the Certificates then outstanding and, so long as the Bond Insurance Policy is in full force and effect, with the written consent of _____ (the "Insurer"), but no such modification or amendment shall (1) extend the stated maturities of the Certificates, or reduce the rate of interest represented thereby, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any premium payable on the prepayment thereof; without the consent of the Registered Owner of each Certificate so affected, or (2) reduce the percentage of Registered Owners of Certificates whose consent is required for the execution of any amendment or modification of the Trust Agreement or the Installment Purchase Agreement, or (3) modify any of the rights or obligations of the Trustee or the Corporation without its written consent thereto.

To the extent and in the manner permitted by the terms of the Trust Agreement and the Installment Purchase Agreement, as the case may be, the Trust Agreement and the rights and obligations of the Corporation and the District and of the registered owners of the Certificates or the Installment Purchase Agreement and the rights and obligations of the Corporation and the District and the registered owners of the Certificates, respectively, may also be modified or amended, without the consent of the registered owners of any Certificates, but only to the extent permitted by law and only for any one or more of the following purposes --

(1) to add to the covenants and agreements of the Corporation or the District contained in the Trust Agreement or the Installment Purchase Agreement other covenants and agreements thereafter to be observed or to surrender any right or power in the Trust Agreement or the Installment Purchase Agreement reserved to or conferred upon the Corporation or the District, and which shall not adversely affect the interests of the registered owners of the Certificates;

(2) to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement or the Installment Purchase Agreement or in regard to questions arising under the Trust Agreement or the Installment Purchase Agreement, as the Corporation or the District may deem necessary or desirable and which shall not adversely affect the interests of the registered owners of the Certificates; and

(3) to make such other amendments or modifications as may be in the best interests of the registered owners of the Certificates.

Any provision of the Trust Agreement or the Installment Purchase Agreement expressly recognizing or granting rights in or to Insurer may not be amended in any manner which affects the rights of Insurer thereunder without the prior written consent of Insurer.

Upon acceleration, the Installment Payments and the Certificates shall become due and payable immediately from the sources described in the Installment Purchase Agreement and the Trust Agreement, respectively.

The Trustee has no obligation or liability to the registered owners of the Certificates for the payment of interest, principal or prepayment premium, if any, with respect to the Certificates out of the Trustee's own funds; the Trustee's sole obligations are those described in the Trust Agreement. The recitals of facts herein shall be taken as statements of the District and the Corporation and the Trustee does not have any responsibility for the accuracy thereof.

IN WITNESS WHEREOF, this Certificate has been executed by the manual signature of an authorized signatory of the Trustee, all as of the date set forth below.

Execution date: _____, 2007

UNION BANK OF CALIFORNIA, N.A.,
as Trustee

By: _____
Its: Authorized Signatory

FORM OF STATEMENT OF INSURANCE

[To Come]

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

(print or typewrite name, address, including postal zip code, and social security
or other identifying number of Transferee)

the within Certificate and all rights thereunder, and hereby irrevocably constitutes and appoints

attorney to transfer the within Certificate on the books kept for registration thereof by the Trustee,
with full power of substitution in the premises.

Dated: _____

Signature Guaranteed

NOTICE: Signature(s) must be guaranteed by
an eligible guarantor institution.

NOTICE: The signature to this assignment must
correspond with the name as it appears upon the
face of the within Certificate in every particular,
without alteration or enlargement or any change
whatsoever.

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INSTALLMENT PURCHASE AGREEMENT

by and between

OTAY WATER DISTRICT

and

OTAY SERVICE CORPORATION

Dated as of _____, 2007

Relating to

\$42,000,000*

**OTAY WATER DISTRICT
REVENUE CERTIFICATES OF PARTICIPATION
(2007 WATER SYSTEM PROJECT), SERIES 2007**

* Preliminary

INSTALLMENT PURCHASE AGREEMENT

This INSTALLMENT PURCHASE AGREEMENT is made and entered into as of _____, 2007, by and between OTAY WATER DISTRICT, a municipal water district duly formed and existing under and by virtue of the laws of the State of California (the "District"), and OTAY SERVICE CORPORATION, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation").

WITNESSETH:

WHEREAS, the District proposes to finance the acquisition and construction of improvements, betterments, renovations, and expansions of certain facilities within its water system, as more particularly described in Exhibit A attached hereto (the "2007 Project");

WHEREAS, the Corporation has agreed to assist the District in financing the acquisition and construction of the 2007 Project;

WHEREAS, the District is authorized by Chapter 4 of Part 5, Division 20 of the Water Code of the State of California, to acquire property for its water system and to construct, improve, expand or repair its water system;

WHEREAS, the Corporation proposes to sell the 2007 Project to the District and the District desires to purchase the 2007 Project from the Corporation upon the terms and conditions set forth herein;

WHEREAS, the District has determined that the purchase of the 2007 Project by the District is necessary and proper for District uses and purposes;

WHEREAS, the District and the Corporation have duly authorized the execution and delivery of this Installment Purchase Agreement;

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

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

ARTICLE I

DEFINITIONS

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

following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein. All capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in the Trust Agreement.

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

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 on a parity with, or subordinate to, the 2007 Installment Payments, the 2004 Installment Payments and the 1996 Installment Payments and which are secured by a pledge of and lien on the Taxes and Revenues.

Business Day. The term "Business Day" means a day which is not (a) a Saturday or Sunday or any other day bank institutions located in New York, New York, or the city or cities in which the principal or other designated corporate office of the Trustee or Insurer is located are required or authorized to close, or (b) a day on which the New York Stock Exchange is closed.

Contracts. The term "Contracts" means this Installment Purchase Agreement and all contracts of the District authorized and executed by the District, the Installment Payments or payments under which are on a parity with, or subordinate to, the 2007 Installment Payments and which are secured by a pledge of and lien on the Taxes and Revenues, including the 2004 Installment Purchase Agreement and the 1996 Installment Sale Agreement.

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.

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

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 redeemed 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 redeemed 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 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, including the 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, including the Certificate Payment Fund;

provided that, as to any such Bonds or Installment Payments 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 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.

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

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

Fiscal Year. The term “Fiscal Year” means the period beginning on July 1 of each year and ending on June 30 of such year, or any other twelve-month period selected and designated as the official Fiscal Year of the District.

Independent Certified Public Accountant. The term “Independent Certified Public Accountant” means any firm of certified public accountants appointed by the District, and each of whom is

independent 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, 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 of the District, but who may be regularly retained to make reports to the District.

Installment Payment Date; 2007 Installment Payment Date. The term “Installment Payment Date” means any date on which Installment Payments are scheduled to be paid by the District under and pursuant to any Contract. The term “2007 Installment Payment Date” means four (4) Business Days prior to September 1 and March 1 of each year, commencing on September 1, 2007.

Installment Payments; 2007 Installment Payments. The term “Installment Payments” means the installment payments of interest and principal scheduled to be paid by the District under and pursuant to the Contracts. The term “2007 Installment Payments” means the Installment Payments scheduled to be paid by the District under and pursuant hereto.

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

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.

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

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.

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

1996 Installment Payments. The term “1996 Installment Payments” means the Installment Payments to be made by the District 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, as amended by the First Amendment to Installment Sale Agreement, dated as of August 1, 2004, each by and between the District and the Corporation.

1993 Installment Sale Agreement. The term “1993 Installment Sale Agreement” means the Installment Sale Agreement, dated as of June 1, 1993, as amended by Amendment No. 1 to Installment Sale Agreement, dated as of March 1, 1994, each by and between the District and the Corporation. The obligation of the District to make Installment Payments under the 1993 Installment Sale Agreement terminated with the refinancing of its obligations thereunder pursuant to the 2004 Installment Purchase Agreement.

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 this Installment Purchase Agreement 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.

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 substantially fixed interest rate obligation of the District for the term of such Bond or Contract.

Project; 2007 Project. The term “Project” means any additions, betterments, extensions or improvements to the Water System or other District facilities designated by the Board of Directors of the District as a Project, the acquisition or construction of which is to be paid for by the proceeds of any Contracts or Bonds. The term “2007 Project” means the acquisitions, repairs, additions, betterments, extensions and improvements to the Water System, including real property and buildings, if any, described in Exhibit A hereto and as modified in conformance with Section 3.01 hereof.

Purchase Price. The term “Purchase Price” means the principal amount plus interest thereon owed by the District to the Corporation under the terms hereof as provided in Section 4.01.

Revenue Fund. The term “Revenue Fund” means the fund established under the 1993 Installment Sale Agreement, continued under the 1996 Installment Sale Agreement and the 2004 Installment Purchase Agreement and continued by the terms of Section 5.02 hereof.

Revenues. The term “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; and (ii) all income, rents, rates, fees, charges and other moneys derived by the District from the ownership or operation of the Water System, or any portion thereof, 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, and (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 hereunder; 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.

2004 Certificates. The term “2004 Certificates” means the \$12,270,000 Otay Water District Revenue Refunding Certificates of Participation (1993 Water Facilities Project), Series 2004 executed and delivered pursuant to the 2004 Installment Purchase Agreement.

2004 Installment Payments. The term “2004 Installment Payments” means the Installment Payments to be made by the District pursuant to the 2004 Installment Purchase Agreement.

2004 Installment Purchase Agreement. The term “2004 Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of July 1, 2004 by and between the District and the Corporation.

2007 Project Fund. The term “2007 Project Fund” means the fund by that name established pursuant to Section 3.05 of the Trust Agreement.

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 established under the 1993 Installment Sale Agreement, continued under the 1996 Installment Sale Agreement and the 2004 Installment Purchase Agreement and continued by the terms of Section 5.02 hereof.

Trust Agreement. The term “Trust Agreement” means the Trust Agreement, dated as of _____, 2007, by and among the District, the Corporation and the Trustee, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

Trustee. The term “Trustee” means Union Bank of California, N.A., acting in its capacity as Trustee under and pursuant to the Trust Agreement, and its successors and assigns.

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.

ARTICLE II

REPRESENTATIONS AND WARRANTIES: OPINIONS OF COUNSEL

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

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

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

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

(d) The District will not take or, to the extent within its power, permit any action to be taken which results in the interest paid for the installment purchase of the 2007 Project under the terms of this Installment Purchase Agreement being included in the gross income of the Corporation or its assigns for purposes of federal or State of California personal income taxation.

(e) The District has determined that it is necessary and proper for District uses and purposes within the terms of the Law that the District finance the 2007 Project in the manner provided for in this Installment Purchase Agreement, in order to provide essential services and facilities to persons residing in the District.

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

(a) The Corporation is a nonprofit public benefit corporation duly organized and in good standing under the laws of the State of California, has full legal right, power and authority to enter into this Installment Purchase Agreement and to carry out and consummate all transactions contemplated by this Installment Purchase Agreement and by proper action has duly authorized the execution and delivery and due performance of this Installment Purchase Agreement.

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

creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the Corporation.

(c) The Corporation will not take or permit any action to be taken which results in interest paid for the installment purchase of the 2007 Project under the terms of this Installment Purchase Agreement being included in the gross income of the Corporation or its assigns for purposes of federal or State of California personal income taxation.

ARTICLE III

CONSTRUCTION, SALE AND PURCHASE OF 2007 PROJECT; 2007 PROJECT FUND

Section 3.01. Sale and Purchase of the 2007 Project. In consideration for the Installment Payments as set forth in Section 4.02, the Corporation agrees to sell, and hereby sells, to the District, and the District agrees to purchase, and hereby purchases, from the Corporation, the 2007 Project at the Purchase Price specified in Section 4.01 and otherwise in the manner and in accordance with the provisions of this Installment Purchase Agreement. In consideration for the Corporation's assistance in financing the 2007 Project through the execution and delivery of this Installment Purchase Agreement, the District agrees to act as the Corporation's agent for purposes of the acquisition, construction and installation of the 2007 Project, as provided in Section 3.02, below.

Section 3.02. Construction of 2007 Project. From the moneys on deposit in the 2007 Project Fund (established and funded under the Trust Agreement) and other moneys available therefor in the Revenue Fund, the District will acquire and construct the 2007 Project with all practicable dispatch, and such acquisition and construction will be made in an expeditious manner and in conformity with the law so as to complete the same as soon as possible.

(a) *Time for Completion.* The District agrees to use best efforts to ensure that the 2007 Project is completed by _____, 20__.

(b) *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 or charge upon the 2007 Project Fund or the Revenue Fund or any part thereof, or upon any funds held by the Trustee, or which might impair the security of the Installment Payments; provided, that nothing herein contained shall require the District to make any such payments so long as the District in good faith shall contest the validity of any such claims and such nonpayment will not materially adversely affect the District's ability to perform its obligations hereunder.

(c) *Changes to 2007 Project.* The District may substitute other improvements for those listed as components of the 2007 Project in Exhibit A if the facilities being constructed in lieu of the ones listed in Exhibit A are determined by the District to be more necessary to the proper functioning of the Water System at the time of said determination; provided that the District shall file a Written Order of the District with the Trustee informing the Trustee of the District's determination.

Section 3.03. Title. All right, title and interest in each element and component of the 2007 Project shall vest in the District immediately upon execution and delivery of this Installment Purchase Agreement or, if later, upon the acquisition of any rights with respect to such element or component. Such vesting shall be automatic and shall require no further action by the District or the

Corporation, but the Corporation agrees to execute and deliver, from time to time, any documents the District deems necessary or desirable to evidence such vesting.

Section 3.04. Deposit of Moneys into 2007 Project Fund. On the Delivery Date, the Corporation shall cause to be transferred to the District, from the proceeds of the sale of the Certificates, all amounts not required to pay premium for insurance, underwriter's fees, counsel fees or other costs related to the execution and delivery of the Certificates.

ARTICLE IV

2007 INSTALLMENT PAYMENTS

Section 4.01. Purchase Price.

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

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

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

Section 4.02. 2007 Installment Payments. The District shall, subject to its rights of prepayment provided in Article VII, pay the Corporation the Purchase Price in installment payments of interest and principal in the amounts and on the 2007 Installment Payment Dates as set forth in Exhibit B hereto.

Each 2007 Installment Payment shall be paid to the Corporation in lawful money of the United States of America. In the event the District fails to make any of the payments required to be made by it under this section, such payment shall continue as an obligation of the District until such amount shall have been fully paid and the District agrees to pay the same with interest accruing thereon at the rate or rates of interest then applicable to the remaining unpaid principal balance of the 2007 Installment Payments if paid in accordance with their terms.

The obligation of the District to make the 2007 Installment Payments is absolute and unconditional, and until such time as the Purchase Price shall have been paid in full (or provision for the payment thereof shall have been made pursuant to Article IX), the District will not discontinue or suspend any 2007 Installment Payment required to be made by it under this section when due, whether or not the Water System or any part thereof is operating or operable or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

ARTICLE V

SECURITY

Section 5.01. Pledge of Taxes and Revenues. All Revenues and Taxes and all amounts on deposit in the Revenue Fund and the Tax Fund are hereby irrevocably pledged to the payment of the 2007 Installment Payments as provided herein and the Revenues and Taxes shall not be used for any other purpose while any of the 2007 Installment Payments remain unpaid; provided that out of the Revenues and Taxes and amounts on deposit in the Revenue Fund 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, all amounts on deposit in the Revenue Fund on a parity with the pledge under the 1996 Installment Sale Agreement, the 2004 Installment Purchase Agreement and any other Contracts or Bonds hereafter issued on a parity herewith, subject to application of amounts on deposit therein as permitted herein, the Revenue Fund, the Tax Fund and the other funds and accounts created hereunder for the payment of the 2007 Installment Payments in accordance with the terms hereof and of the Trust Agreement.

Section 5.02. Allocation of Revenues and Taxes. 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 hereunder and shall be deposited when and as received in separate specials fund designated as the "Revenue Fund" and the "Tax Fund," respectively, which funds were previously established under the 1993 Installment Sale Agreement, continued under the 1996 Installment Sale Agreement and the 2004 Installment Purchase Agreement 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 Installment Payments, Contracts or Bonds remain unpaid. Moneys in the Revenue Fund and Tax Fund shall be used and applied by the District as provided in this Installment Purchase Agreement and as provided in the 1996 Installment Sale Agreement and the 2004 Installment Purchase Agreement while the 1996 Certificates and the 2004 Certificates remain Outstanding.

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 they 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 in the following respective special funds in the following order of priority and all moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes hereinafter authorized in this Section:

(a) Certificate Payment Fund. On or before each 2007 Installment 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 Certificate Payment Fund the 2007 Installment Payment due and payable on that Installment 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 applicable 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 the Contract, resolution or indenture relating thereto.

No deposit need be made in the Certificate Payment Fund as 2007 Installment Payments if the amount in the Certificate Payment Fund is at least equal to the amount of the 2007 Installment Payment due and payable on the next succeeding 2007 Installment Payment Date.

All money in the Certificate Payment Fund shall be used and withdrawn by the Trustee in accordance with the Trust Agreement.

(b) Reserve Fund. On or before each 2007 Installment 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 Trustee for deposit in the Reserve Fund, that sum, if any, necessary to restore the Reserve Fund to an amount equal to the 2007 Reserve Fund Requirement, transfer to the applicable trustee for deposit to such other reserve fund or account for Bonds or Contracts an amount equal to the amount required to be deposited therein, and to transfer to the Insurer any amounts due pursuant to any agreement related to the repayment of draws under the Reserve Policy as prescribed in Section 5.03 of the Trust Agreement.

No transfer of moneys for deposit to the Reserve Fund in connection with the 2007 Installment Payments need be made if the amount contained therein is at least equal to the 2007 Reserve Fund Requirement.

(c) Surplus. Moneys on deposit in the Tax Fund or Revenue Fund not necessary to make any of the payments required above or as required by the 1996 Installment Sale Agreement or the 2004 Installment Purchase Agreement may be expended by the District at any time for any purpose permitted by law.

Section 5.03. Additional Contracts and Bonds. The District may at any time execute any Contract or issue any Bonds; as the case may be, in accordance herewith, provided an Independent Financial Consultant or 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 Policy Costs, if any, to the Insurer), 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 Policy Costs are past due and owing to the Insurer, the Insurer must provide written consent to the issuance of any Bonds or the execution of any Contracts.

Section 5.04. Investments. All moneys held by the District in the Tax Fund and Revenue Fund shall be invested in the manner authorized by the District's financial policies or as otherwise permitted by law. Investment earnings thereon shall remain on deposit in such fund, except as otherwise provided herein.

ARTICLE VI

COVENANTS OF THE DISTRICT

Section 6.01. Compliance with Installment Purchase Agreement and Ancillary Agreements. The District will punctually pay the 2007 Installment Payments in strict conformity with the terms hereof, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and performed by it, and will not terminate the Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the 2007 Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Corporation to observe or perform any agreement, condition, covenant or term contained herein required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected herewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Corporation or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement required to be observed and performed by it, and it is expressly understood and agreed by and among the parties to this Installment Purchase Agreement and the Trust Agreement that, subject to Section 10.06 hereunder, each of the agreements, conditions, covenants and terms contained in each such agreement is an essential and material term of the

purchase of and payment for the 2007 Project by the District pursuant to, and in accordance with, and as authorized under the Law.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms required to be observed and performed by it pursuant to all outstanding Contracts and Bonds as such may from time to time be executed or issued, as the case may be.

Section 6.02. 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, issue evidences of indebtedness or incur other obligations for any lawful purpose 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 (as provided in Section 5.02) provided that such pledge and lien shall be on a parity with, or subordinate in all respects to, the pledge of and lien thereon provided herein.

Section 6.03. Against Sale or Other Disposition of Property. The District will not enter into any agreement or lease which impairs the operation of the Water System or any part thereof necessary to secure adequate Revenues for the payment of the 2007 Installment Payments, or which would otherwise impair the rights of the Corporation hereunder or 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 2007 Installment Payments and if the proceeds of such sale are deposited in the Revenue Fund.

Nothing herein shall restrict the ability of the District to sell any portion of the 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 6.04. Against Competitive Facilities. The District will not, to the extent permitted by law, 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 6.05. Tax Covenants. The District shall comply with the tax covenants set forth in the Trust Agreement.

Section 6.06. 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 6.07. Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Revenues, Taxes or the funds or accounts created hereunder or under the Trust Agreement or on any funds in the hands of the District pledged to pay the 2007 Installment Payments or to the Owners prior or superior

to the lien of the 2007 Installment Payments or which might impair the security of the 2007 Installment Payments.

Section 6.08. Compliance with Contracts. 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 contracts for the use of the Water System and all other contracts affecting or involving the Water System, to the extent that the District is a party thereto.

Section 6.09: Insurance.

(a) The District will procure and maintain or cause to be procured and maintained insurance on the Water System with responsible insurers in such amounts and against such risks (including accident 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 at reasonable rates.

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, then the excess Net Proceeds shall be applied in part to the prepayment of 2007 Installment Payments as provided in Article VII and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal balance of 2007 Installment Payments then bears to the aggregate unpaid principal amount of such Bonds and Contracts. If such Net Proceeds are sufficient to enable the District to retire the entire obligation evidenced hereby prior to the final due date of the 2007 Installment Payments as well as the entire obligations evidenced by 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 thereupon such Net Proceeds shall be applied to the prepayment of 2007 Installment Payments as provided in Article VII and to the retirement of such Bonds and Contracts.

(b) The District will procure and maintain such other insurance which it shall deem advisable or necessary to protect its interests and the interests of the Corporation, 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.

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

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

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

(b) The District will prepare and file with the Corporation or its assignee and, so long as the Bond Insurance Policy is in full force and effect, with Insurer, annually within one hundred eighty (180) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2007) financial statements of the District for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon.

Section 6.11. Protection of Security and Rights of the Corporation. The District will preserve and protect the security hereof and the rights of the Corporation to the 2007 Installment Payments hereunder and will warrant and defend such rights against all claims and demands of all persons.

Section 6.12. Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the 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 6.13. Amount of Rates and Charges. The District shall 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 one hundred twenty-five percent (125%) of the Debt Service (including for purposes of such calculation the obligation of the District to repay Policy Costs, if any, to the Insurer) 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 this section.

Section 6.14. Collection of Rates and Charges. The District will have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates and charges applicable to the Water Service 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 6.15. 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 Corporation and 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 Corporation and 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 in part to the prepayment of 2007 Installment Payments as provided in Article VII and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal balance of 2007 Installment Payments then bears to the aggregate unpaid principal amount of such Bonds and Contracts.

Section 6.16. Further Assurances. The District will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Corporation of the rights and benefits provided to it herein.

Section 6.17. Enforcement of Contracts. So long as any of the Certificates are outstanding, 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 which contracts provide for water to be supplied to the District which consent, revision, amendment or other action will reduce the supply of water thereunder (except as provided therein), unless the Board of Directors of the District determines by resolution that such rescission or amendment would not materially adversely affect the ability of the District to pay 2007 Installment Payments.

Section 6.18. Continuing Disclosure. The District has covenanted and agreed pursuant to the Trust Agreement that it will comply with and carry out all of its obligations under the continuing disclosure certificate to be executed and delivered by the District in connection with the execution and delivery of the Certificates. Notwithstanding any other provision of this Installment Purchase Agreement, failure of the District to comply with the continuing disclosure certificate shall not be considered an Event of Default.

ARTICLE VII

PREPAYMENT OF 2007 INSTALLMENT PAYMENTS

Section 7.01. Prepayment.

(a) The District may or shall, as the case may be, prepay from the Net Proceeds as provided herein the 2007 Installment Payments in whole or in part on any date in the order of payment date as directed by the District at a prepayment price equal to the sum of the principal amount prepaid plus accrued interest thereon to the date of prepayment.

(b) The District shall have the right at any time or from time to time from any available funds to prepay all or any part of the 2007 Installment Payments; provided that any prepayment of a principal component of the 2007 Installment Payments to be applied to the prepayment or defeasance of Certificates shall be in an amount sufficient to provide for such prepayment or defeasance of Certificates in Authorized Denominations and otherwise in accordance with the provisions of the Trust Agreement and Section 9.01 hereof. The Corporation shall accept such prepayments when the same are tendered by the District. With respect to prepayments of Installment Payments pursuant to this Section, the District shall determine which Installment Payments are to be prepaid, including the principal component of the Installment Payment due on each Installment Payment Date to be paid or prepaid with such prepayments, and, subject to the provisions of this Section, the date on which each such prepayment is to be made.

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

Section 7.02. Method of Prepayment. Before making any prepayment pursuant to Section 7.01, the District shall give written notice to the Corporation and the Trustee specifying the date on which the prepayment will be paid, which date shall be not less than sixty (60) nor more than seventy-five (75) days from the date such notice is given.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF THE CORPORATION

Section 8.01. Events of Default and Acceleration of Maturities. If one or more of the following Events of Default shall happen, that is to say --

(1) if default shall be made by the District in the due and punctual payment of any 2007 Installment Payment or any Contract or Bond when and as the same shall become due and payable;

(2) if default shall be made by the District in the performance of any of the other agreements or covenants required herein to be performed by it, and such default shall have continued for a period of sixty (60) days after the District shall have been given notice in writing of such default by the Corporation; or

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

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

then and in each and every such case during the continuance of an Event of Default, the Corporation at the written direction of Insurer so long as the Bond Insurance Policy is in full force and effect shall, and, with the written consent of Insurer so long as the Bond Insurance Policy is in full force and effect may, by notice in writing to the District, declare the entire principal amount of the unpaid 2007 Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained herein to the contrary notwithstanding. This Section, however, is subject to the condition that if at any time after the entire principal amount of the unpaid 2007 Installment Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered the District shall deposit with the Corporation a sum sufficient to pay the unpaid principal amount of the 2007 Installment Payments or the unpaid payment of any other Contract or Bond referred to in clause (1) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the 2007 Installment Payments or such Contract or Bond if paid in accordance with their terms, and the reasonable expenses of the Corporation, and any and all other defaults known to the Corporation (other than in the payment of the entire principal amount of the unpaid 2007 Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Corporation or provision deemed by the Corporation to be adequate shall have been made therefor, then and in every such case the Insurer, so long as the Bond Insurance Policy is in full force and effect, by written notice to the District, or the Corporation, by written notice to the District and with the written consent of Insurer so long as the Bond Insurance Policy is in full force and effect, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Insurer shall have the right to direct an accounting at the District's expense, and the District's failure to comply with such direction within thirty (30) days after receipt of written notice of the direction from Insurer shall be deemed a default under this Installment Purchase Agreement; provided, however, that if compliance cannot occur within such period, then such period shall be extended so long as compliance is begun within such period and diligently pursued, but only if such extension would not materially adversely affect the interests of any Owner of the Certificates.

Section 8.02. Application of Funds Upon Acceleration. Upon the date of the declaration of acceleration as provided in Section 8.01, all Taxes and Revenues thereafter received by the District shall be applied in the following order --

First, to the payment, without preference or priority, and in the event of any insufficiency of such Revenues or Taxes ratably without any discrimination or preference, of the fees, costs and expenses of the Corporation and Trustee, if any, in carrying out the provisions of this article, including reasonable compensation to their respective accountants and counsel;

Second, other than Taxes, to the payment of the Operation and Maintenance Costs; and

Third, to the payment of the entire principal amount of the unpaid 2007 Installment Payments and the unpaid principal amount of all Bonds and Contracts and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable to the 2007 Installment Payments and such Bonds and Contracts if paid in accordance with their respective terms.

Section 8.03. Other Remedies of the Corporation. The Corporation shall at the written direction of Insurer so long as the Bond Insurance Policy is in full force and effect, and shall have the right with the written consent of Insurer so long as the Bond Insurance Policy is in full force and effect --

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

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

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

Notwithstanding anything contained herein, the Corporation shall have no security interest in or mortgage on the 2007 Project, the Water System or other assets of the District and no default hereunder shall result in the loss of the 2007 Project, the Water System, or other assets of the District.

Section 8.04. Non-Waiver. Nothing in this article or in any other provision hereof shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the 2007 Installment Payments to the Corporation at the respective due dates or upon prepayment from the Net Revenues, the Revenue Fund and the other funds herein pledged for such payment, or shall affect or impair the right of the Corporation, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied herein.

A waiver of any default or breach of duty or contract by the Corporation shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract; provided however that so long as the Bond Insurance Policy is in full force and effect, the Corporation shall not waive any default or breach of duty or contract without the written consent of Insurer. No delay or omission by the Corporation to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any

such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Corporation by the Law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Corporation.

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

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

ARTICLE IX

DISCHARGE OF OBLIGATIONS

Section 9.01. Discharge of Obligations. When

(a) all or any portion of the 2007 Installment Payments shall have become due and payable in accordance herewith or a written notice of the District to prepay all or any portion of the 2007 Installment Payments shall have been filed with the Trustee; and

(b) there shall have been deposited with the Trustee at or prior to the 2007 Installment Payment Dates or date (or dates) specified for prepayment, in trust for the benefit of the Corporation or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of the 2007 Installment Payments, sufficient moneys and non-callable Permitted Investments, issued by the United States of America and described in clause (A) of the definition thereof, the principal of and interest on which when due will provide money sufficient to pay all principal, prepayment premium, if any, and interest of such 2007 Installment Payments to their respective 2007 Installment Payment Dates or prepayment date or dates as the case may be; and

(c) provision shall have been made for paying all fees and expenses of the Trustee, then and in that event, if an opinion of bond counsel acceptable to the Trustee is filed with the Trustee to the effect that the actions authorized by and taken pursuant to this Article IX shall not adversely affect the tax exempt status of the interest portion of the 2007 Installment Payments, the right, title and interest of the Corporation herein and the obligations of the District hereunder shall, with respect to all or such portion of the 2007 Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the District to have such moneys and such Permitted Investments applied to the payment of such 2007 Installment Payments).

In such event, upon request of the District the Trustee shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and shall execute and deliver to the District all such instruments as may be necessary or desirable to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a

total discharge and satisfaction, the Trustee shall pay over to the District, after payment of all amounts due the Trustee pursuant to the Trust Agreement, as an overpayment of 2007 Installment Payments, all such moneys or such Permitted Investments held by it pursuant hereto other than such moneys and such Permitted Investments, as are required for the payment or prepayment of the 2007 Installment Payments, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the payment of the 2007 Installment Payments and shall be applied by the Trustee to the payment of the 2007 Installment Payments of the District.

ARTICLE X

MISCELLANEOUS

Section 10.01. Liability Limited. Notwithstanding anything contained herein, the District shall not be required to advance any moneys derived from any source of income other than the Revenues, Taxes, the Revenue Fund, the Tax Fund and the other funds provided herein for the payment of amounts due hereunder or for the performance of any agreements or covenants required to be performed by it contained herein. The District may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the District for such purpose.

The obligation of the District to make the 2007 Installment Payments is a special obligation of the District payable solely from the Taxes, Net Revenues and amounts on deposit in the Revenue Fund and the Tax Fund and does not constitute a debt of the District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

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

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

Section 10.04. Waiver of Personal Liability. No council member, officer or employee of the District shall be individually or personally liable for the payment of the 2007 Installment Payments, but nothing contained herein shall relieve any director, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or hereby.

Section 10.05. Article and Section Headings, Gender and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to "Articles," "Sections" and other subdivisions or clauses are to the corresponding articles, sections,

subdivisions or clauses hereof and the words “hereby,” “herein,” “hereof,” “hereto,” “herewith” and other words of similar import refer to the Installment Purchase Agreement as a whole and not to any particular article, section, subdivision or clause hereof.

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

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

Section 10.08. Net Contract. The Installment Purchase Agreement shall be deemed and construed to be a net contract, and the District shall pay absolutely net during the term hereof of the 2007 Installment Payments and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off whatsoever.

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

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

If to the District: Otay Water District
2554 Sweetwater Springs Boulevard
Spring Valley, CA 91978
Attention: General Manager

If to the Corporation: Otay Service Corporation
2554 Sweetwater Springs Boulevard
Spring Valley, CA 91978
Attention: President

If to the Insurer: _____

Attention: Risk Management

Section 10.11. Effective Date. The Installment Purchase Agreement shall become effective upon its execution and delivery, and shall terminate when the Purchase Price shall have been fully

paid (or provision for the payment thereof shall have been made to the written satisfaction of the Corporation).

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

Section 10.13. Indemnification of Corporation. The District hereby agrees to indemnify and hold harmless the Corporation if and to the extent permitted by law, from and against all claims, advances, damages and losses, including legal fees and expenses, arising out of or in connection with the acceptance or the performance of its duties hereunder, under the Trust Agreement, and the Assignment Agreement; provided that no indemnification will be made for willful misconduct, negligence or breach of an obligation hereunder, under the Trust Agreement or the Assignment Agreement by the Corporation.

Section 10.14. Amendments Permitted.

(a) This Installment Purchase Agreement and the rights and obligations of the Corporation and the District and of the Owners of the Certificates and of the Trustee may be modified or amended at any time by an amendment hereto which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in Section 11.04 of the Trust Agreement and, so long as the Bond Insurance Policy is in full force and effect, the written consent of Insurer shall have been filed with the Trustee. No such modification or amendment shall (1) extend the stated maturities of the Certificates, or reduce the rate of interest represented thereby, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any premium payable on the prepayment thereof, without the consent of the Owner of each Certificate so affected, or (2) reduce the aforesaid percentage of Owners of Certificates whose consent is required for the execution of any amendment or modification of this Installment Purchase Agreement, or (3) modify any of the rights or obligations of the Trustee or the Corporation without its written consent thereto.

(b) This Installment Purchase Agreement and the rights and obligations of the Corporation and the District and of the Owners of the Certificates may also be modified or amended at any time by an amendment hereto which shall become binding upon adoption, without the consent of the Owners of any Certificates, but only to the extent permitted by law and only for any one or more of the following purposes--

(1) to add to the covenants and agreements of the Corporation or the District contained in this Installment Purchase Agreement other covenants and agreements thereafter to be observed or to surrender any right or power herein reserved to or conferred upon the Corporation or the District, and which shall not adversely affect the interests of the Owners of the Certificates;

(2) to cure, correct or supplement any ambiguous or defective provision contained in this Installment Purchase Agreement or in regard to questions arising under this Installment Purchase Agreement, as the Corporation or the District may deem necessary or desirable and which shall not adversely affect the interests of the Owners of the Certificates; and

(3) to make such other amendments or modifications as may be in the best interests of the Owners of the Certificates.

No amendment without consent of the Owners may modify any of the rights or obligations of the Trustee without the written consent thereto.

Any provision of this Installment Purchase Agreement expressly recognizing or granting rights in or to Insurer may not be amended in any manner which affects the rights of Insurer hereunder without the prior written consent of Insurer. The Insurer shall be provided with a full transcript of all proceedings relating to the execution of any amendment or supplement to this Installment Purchase Agreement.

Section 10.15. Consent of Insurer. Unless otherwise provided in this Installment Purchase Agreement, Insurer's consent will be required for initiation or approval of any action which requires Owner consent.

Section 10.16. Notice to Insurer. Any notices required to be given to any party under this Installment Purchase Agreement shall also be given to the Insurer.

Section 10.17. Notice to Rating Agencies. Copies of all amendments to this Installment Purchase Agreement shall be mailed by first class mail to [Standard & Poor's Ratings Services] at least 15 days prior to the effective date of such amendment.

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

OTAY WATER DISTRICT

By: _____
Its: President

ATTEST:

Secretary

OTAY SERVICE CORPORATION

By: _____
Its: President

ATTEST:

Secretary

EXHIBIT A

DESCRIPTION OF 2007 PROJECT

The 2007 Project comprises costs relating to the following described improvements to the District's Water System:

- 640-1 and 640-2 Reservoirs. Design and construction of two potable water reservoirs with a storage capacity of approximately 10 million gallons each, and facilities appurtenant.
- 36-inch pipeline. Design and construction of approximately 25,500 feet of 36-inch pipeline from a facility owned by the San Diego County Water Authority and known as the Otay flow control facility No. 14 (FCF 14) to a facility known as the Regulatory Site, including funding the costs of upgrading FCF 14 to a capacity of 16 million gallons per day.
- 30-inch recycled water pipeline. Design and construction of approximately 28,000 feet of 30-inch pipeline from Dairy Mart Road to a proposed reservoir facility to be known as the 450-1 reservoir, described below.
- 450-1 reservoir. Design and construction of a recycled water reservoir with a storage capacity of approximately 12 million gallons.
- 680-1 pump station. Design and construction of a pump station with capacity to pump approximately 11,500 gallons per minute and a 24-inch discharge transmission pipeline to transmit water from the 450-1 reservoir.
- 1296-3 Reservoir. Design and construction of two million gallon steel reservoir adjacent to the District's existing 1296-1 and 1296-2 reservoirs.
- 850-4 Reservoir. Design and construction of a potable water steel reservoirs with a storage capacity of approximately 2.2 million gallons adjacent to the existing 850-2 reservoir.
- Funding certain costs related to utility relocations of existing facilities of the District required in connection with the construction of Interstate 905.
- 1485-1 Pump Station Replacement. Design and construct a new pump station to replace an existing pump station that has reached the end of its useful life.
- Funding other costs related to facilities required in connection with any of the above listed project.

EXHIBIT B

PURCHASE PRICE

1. The principal amount of payments to be made by the District hereunder is \$_____.

2. The installment payments of principal and interest are payable in the amounts and on the Installment Payment Dates as follows:

<i>Installment Payment Date (4 Business Days Prior to)</i>	<i>Amount Attributable to Principal</i>	<i>Amount Attributable to Interest</i>
--	---	--

Total	\$_____	\$_____
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ASSIGNMENT AGREEMENT

by and between

OTAY SERVICE CORPORATION

and

**UNION BANK OF CALIFORNIA, N.A.,
as Trustee**

Dated as of _____, 2007

Relating to

\$42,000,000*

**OTAY WATER DISTRICT
REVENUE CERTIFICATES OF PARTICIPATION
(2007 WATER SYSTEM PROJECT)
SERIES 2007**

* Preliminary

ASSIGNMENT AGREEMENT

This Assignment Agreement is made and entered into as of _____, 2007, by and between OTAY SERVICE CORPORATION, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation") and UNION BANK OF CALIFORNIA, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States of America, as trustee (the "Trustee");

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

SECTION 1. Assignment.

The Corporation, for good and valuable consideration in hand received, does hereby sell, assign and transfer to the Trustee, without recourse, for the benefit of the owners of the certificates of participation (the "Certificates"), to be executed and delivered by the Trustee pursuant to the Trust Agreement, dated as of _____, 2007, by and among the Otay Water District (the "District"), the Corporation and the Trustee (the "Trust Agreement"), all of its rights, title, and interest in the Installment Purchase Agreement, dated as of _____, 2007, by and between the District and the Corporation (the "Installment Purchase Agreement"), including the right to receive all installment payments from the District under the Installment Purchase Agreement (but not including the right to be indemnified and the right to receive notices pursuant to the Installment Purchase Agreement), together with any and all of the other rights of the Corporation under the Installment Purchase Agreement as may be necessary to enforce payment of such installment payments when due or otherwise to protect the interests of the owners of the Certificates.

All rights assigned by the Corporation shall be administered by the Trustee as assignee thereof according to the provisions of the Trust Agreement and for the equal and proportionate benefits of the Owners of the Certificates. This assignment is absolute and presently effective.

SECTION 2. Acceptance.

The Trustee hereby accepts the foregoing assignment for the purpose of securing the right assigned to it to receive all such installment payments from the District under the Installment Purchase Agreement and the other rights assigned to it, subject to the terms and provisions of the Trust Agreement, and all such installment payments shall be applied and the rights so assigned shall be exercised by the Trustee as provided in the Trust Agreement.

SECTION 3. Conditions.

This Assignment Agreement shall confer no rights or impose no obligations upon the Trustee beyond those expressly provided in the Trust Agreement. This Assignment Agreement shall constitute a complete assignment by the Corporation of all of its rights and obligations under and pursuant to the Installment Purchase Agreement, except as otherwise provided herein.

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

OTAY SERVICE CORPORATION

By: _____
Its: President

ATTEST:

Secretary

UNION BANK OF CALIFORNIA, N.A., as Trustee

By: _____
Its: Authorized Officer



AGENDA ITEM 11a

STAFF REPORT

TYPE MEETING:	Regular Board Meeting	MEETING DATE:	February 7, 2007
SUBMITTED BY:	Mark Watton, General Manager	W.O./G.F. NO:	DIV. NO.
SUBJECT:	Board of Directors 2007 Calendar of Meetings		

GENERAL MANAGER'S RECOMMENDATION:

That the board consider rescheduling the July 2007 Board of Directors meeting to Tuesday, July 10, 2007 at 3:30 p.m.

PURPOSE:

To request that the board reschedule the July 2007 Board of Directors meeting as the original date would fall on the 4th of July Holiday.

COMMITTEE ACTION:

N/A

ANALYSIS:

During the January 3, 2007 Board of Directors meeting, the Board requested that the Board Secretary make recommendation of a new meeting date for the month of July as the meeting would fall on the 4th of July Holiday. The board members have been polled and members have confirmed their availability on Tuesday, July 10, 2007 at 3:30 p.m. Staff is recommending that the board reschedule the July 2007 board meeting to Tuesday, July 10, at 3:30pm. A revised Board of Directors meeting calendar has been attached noting the new date of the meeting.

STRATEGIC GOAL:

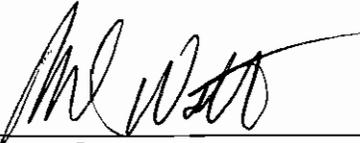
N/A

FISCAL IMPACT: _____

None.

LEGAL IMPACT: _____

None.



General Manager

Attachments: Calendar of Meetings for 2007

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**Board of Directors, Workshops
and Committee Meetings
2007**

Regular Board Meetings:

January 3, 2007
February 7, 2007
March 7, 2007
April 4, 2007
May 2, 2007
June 6, 2007
July 10, 2007
August 1, 2007
September 5, 2007
October 3, 2007
November 7, 2007
December 5, 2007

**Special Board or Committee Meetings (3rd
Wednesday of Each Month or as Noted)**

January 17, 2007
February 21, 2007
March 21, 2007
April 18, 2007
May 16, 2007
June 20, 2007
July 18, 2007
August 15, 2007
September 19, 2007
October 17, 2007
November 21, 2007
December 19, 2007

Board Workshops:

Budget Workshop, TBD
Board Retreat Workshop, TBD

AGENDA ITEM 12



STAFF REPORT

TYPE MEETING:	Regular Board Meeting	MEETING DATE:	February 7, 2007		
SUBMITTED BY:	Mark Watton, General Manager	W.O./G.F. NO:	N/A	DIV. NO.	N/A
SUBJECT:	General Manager's Report				

GENERAL MANAGER:

- Update on the 30-inch Recycled Water Pipeline, 450-1 Reservoir, and 680-1 Pump Station Projects:
 - The start-up plan for the pipeline, reservoir and pump station has been drafted. The final plan will be completed in late January. Start-up preparation is underway.
 - The reservoir interior coating is complete. Exterior coating is underway.
 - Permanent power has been provided to the reservoir and pump station site.
- Update on the 36-inch Pipeline Project:
 - A monthly progress meeting was held with the District's consultant, IEC, to finalize alternative alignments. Staff narrowed the potential alignments down to five for analyses and to incorporate into ETR/PDR.
 - A meeting has been scheduled with members from the Valle de Oro Community Planning Group to present the alternative pipeline alignments.
- Update on the 640 Reservoirs Project:
 - Staff held a pre-construction meeting on January 9, 2007. The meeting entailed a discussion on the project scope, schedule, method of construction and partnering.

ADMINISTRATIVE SERVICES AND FINANCE:

Administrative Services:

- Five new hires started employment in the month of January: Secretary, Reclamation Plant Operator II, Associate Civil Engineer, SCADA/Instrumentation Technician, and Database Administrator.
- Three Defensive Driving Seminars are scheduled for February. They are designed to both provide classroom instruction and driver skills assessment. A total of 60 employees are expected to attend.
- Requests for grant funding were submitted to the Department of Water Resources for \$80,300 to accelerate the installation of high efficiency toilets in commercial and multi-family accounts within the District and for \$4,000 from the Water Authority for a signage project in partnership at MacKenzie Creek Park with the City of Chula Vista.
- School Program Activity: staff conducted four school tours at the Water Conservation Garden this month, involving 190 students and 20 adults from Avondale (La Mesa/Spring Valley School District) and Tiffany Elementary (Chula Vista) Schools. Staff sent out second and third notices regarding its school programs including the CSDA Scholarship.
- Staff gave a irrigation design presentation on January 17th to a group of nine homeowners at the Water Conservation Garden.
- Staff reviewed proposals and served on the interview panel to assist the Water Authority to select a contractor to create their Web-driven Water Budget Program.
- In the month of January there were 160 purchase orders issued for a total of \$274,177.98.

Information Technology and Strategic Planning:

- Staff completed the installation and testing of the parcel refresh process. This will allow the District to accurately update parcel information from the County and other sources (City of Chula Vista). This is also a

necessary task to complete before installing the "Special Assessment Module" which will automate the cumbersome task of creating the tax liability file for the County each year.

- Staff is reviewing a demo of the Fixed Assets Module of Eden this week. This module will improve our asset accounting business processes.
- 2nd Quarter Strategic Plan results are being collected in January. Results are expected to be presented at the March board meeting.

Finance:

- Bond Sale - On January 23rd and 24th , District staff and the Financial Advisor, Susan Harrell, held rating agency presentations for Standard & Poor's, and Fitch rating agencies. This was an excellent overview of the strategic and financial position of the District. Management from every department was involved in highlighting the accomplishments of the District. It has been approximately ten years since the District presented to the rating agencies. Staff is confident this will have a positive impact on the District's future debt financings. Both rating agencies commented on how unusual it is to see a retail water District with the level of system integration and planning that the District exhibits.
- The bond documents are being presented at this Board meeting and the resolution will authorize the Board President, General Manager, and Chief Financial Officer to sign the various bond documents at the time of the bond sale. The bond sale is expected to close in early March.
- IVR - Payments with credit card by phone are nearing implementation pending approval of the contract by legal counsel. The contract issues are delaying the implementation by a few weeks, however, the resolution of these issues are expected to protect the District's interest. When this system is implemented, staff expects that as many as 1,700 calls will be diverted to this system, saving a significant amount of staff time and holding down the number of future FTE's. Staff anticipates that the implementation will be complete before the next Board meeting.

- Budget - The 2008 budget process is beginning. By the time of this Board meeting, workbooks will have been distributed to the various departments. Staffing requests, capital purchases, materials, and administrative costs will all be developed over the next month. The CIP review and cost development is a key part of the District's budgeting process and follows along the same time-line.
- This year, the projected rate changes will be brought to the Board for approval in approximately September, well after the budget is brought to the Board for approval in May. This is so that the District can comply with Prop. 218 notifications. This is a similar process that the County of San Diego follows with their rate changes.
- Year-End Tax Reporting - On January 18th, staff distributed to all employees and Board members their W-2's. Each year-end the District is required to generate W-2's, and 1099's for the employees and vendors by the end of January. The 941, DE6, and DE7 need to be filed with the IRS and the State of California by the end of January. Also, by the end of March, copies of the W-2's and the 1099's need to be filed with the Social Security Administration and the IRS. This is the first year that the W-2's, and 1099's are required to be filed electronically as opposed to mailing paper forms and disks of data. Staff is on schedule to comply with all the filing deadlines and is also prepared to comply with this new electronic filing requirement.
- In addition to the tax reporting efforts, staff updated all of the new tax rates related to social security (medicare & FICA), federal income taxes, and state taxes (income tax & SDI). Numerous deductions such as medical and dental premium contributions, flex benefits (2 plans), and deferred compensation (3 plans) have also been updated successfully.
- The District just received awards from CSMFO for: Excellence in Budgeting Award for both Operating and CIP Budget submissions, & Excellence in Budgeting Award for Public Communications. The following are comments from the raters as they reviewed our budget. "This is a comprehensive document detailing every aspect of the District's activities. Pictures, maps and the different types of graphs are used effectively to communicate financial and non-financial information to the reader. The list of acronyms at the back of the document would be

particularly helpful to the average reader." "This was the second time that we reviewed Otay's budget and we saw a lot of improvements were made compared to the prior year. Excellent progress." "Nice presentation on the completed CIP section, very thorough, and yet concise. An excellent summary of information for general readers to review progress made on CIPs in any given year." Staff is very proud of the quality of these documents as a communication tool to all the District's constituents.

The financial reporting for December 2006 is as follows:

- For the five months ended December 31, 2006, there are total revenues of \$31,909,714 and total expenses of \$29,814,235. The revenues exceeded expenses by \$2,095,479.

The financial reporting for investments for December 31, 2006 is as follows:

- The market value of the Portfolio Master Summary and the Investment Portfolio Details as of December 31, 2006 total \$73,522,403.09 with an average yield to maturity of 5.037%. The total earnings year to date are \$1,674,935.32. The effective duration is .279 of a year.

Engineering:

- Staff received four new improvement plans from developers for potable/recycled plan checks.
- The third disbursement check in the amount of \$174,725 has been received from the State Water Resources Control Board (SWRCB) as payment towards the \$4.0 million Proposition 50 grant. The total received to date is \$3,104,150. Upon completion of the three recycled water projects that link the South Bay Water Reclamation Plant supply to the Otay Water District recycled water system, a final disbursement request for the total of \$4.0 million grant can be made. The final grant request will be submitted after March 2007.
- The U.S. Government has made funds available under the on-going Continuing Resolution for Fiscal Year 2007 for the United States Department of the Interior Bureau of Reclamation (USBR) Title XVI program. The amount made

available to Otay Water District under the Cooperative Agreement is \$590,000. The City of San Diego will be submitting the necessary documentation to USBR to obtain the funds. Otay Water District should receive the funds, less the USBR and City administrative costs, within about 6 to 8 weeks.

- On January 19, 2007, the District received a letter from the City of Chula Vista requesting preparation of a Water Supply Assessment Report pursuant to Senate Bill 610 for the Eastern Urban Center Sectional Planning Area development project. This will be presented to the Board at either the April or May board meeting.
- Twenty-one (21) meters were sold as of January 23, 2007, generating \$151,819 in revenue. Total meters sold for FY06-07 were 407 to date, which generated \$5,602,910 for the District.
- The Construction Division performed three pre-construction meetings and received two new projects which will be constructed by developers. In addition, eight projects were completed and one project was released from warranty.
- Approximately 525 linear feet of both CIP and developer project pipelines were installed totaling 24,070 feet since July 2006. The Construction Division performed quality assurance for these pipelines.
- 176 underground facilities were located, 6 hydrostatic pressure tests, 2 wet taps and tie-ins, 25 meter set inspections, and 5 project walk-throughs were performed during the month.
- The following table summarizes purchase and change orders issued during the period of December 20, 2006 thru January 26, 2007 that are within staff signatory authority:

Date	Action	Amount	Contractor/ Consultant	Project
1/5/07	P.O.	\$76,800.00	Koch-Armstrong	LOPS Paving
1/8/07	C.O. #5	\$46,505.00	TC Construction Co.	450-1 Recycled Water Reservoir & 680-1 Recycled Water Pump Station
1/12/07	C.O. #2	\$7,747.00	Zondiros Corporation	I-905 Utility Relocations
1/23/07	P.O.	\$5,387.50	Infrastructure Engineering	944-1 Pump Station (CIP R-2081)
1/25/07	P.O.	\$3,726.00	Merkel & Associates, Inc.	850-4 Reservoir Cleanup

Water Operations:

- Water purchased for the month of December was 2,866.4 acre-feet. Beginning FY 06/07 to date, July 1, 2006 to December 31, 2006 there has been 23,912.70 acre-feet of water purchased. This is a 1.1 percent increase from the same period last year, July 1, 2005 to December, 2005.
- The AMR change-out program is progressing. The District's contractor, Underground Utility, Inc. (UUI), has replaced 5,014 RAMAR/Badger units as of November 30, 2006, leaving 2,372 RAMAR units still in use.
- There were 29 Automated Meter Reading (AMR) meters installed, 345 meters were replaced with new AMR meters and 333 meters were retrofitted to AMR meters for the month of December.

Total number of potable water accounts is 47,414.

- Recycled water consumption for the month of December is as follows:

Total flow was 212.2 acre-feet or 69,118,192 gallons and the average daily flow was 2,229,619 gallons per day.

Total number of recycled water accounts is 554.

- Wastewater flows for the month of December were as follows:

Total basin flow, gallons per day: 2,129,000.
Total Otay flow, gallons per day: 1,422,000.
Flow Processed at the Ralph W. Chapman Water
Recycling Facility, gallons per day: 1,208,000.
Flow to Metro from Otay Water District, gallons per
day: 213,000.

Total number of sewer connections is 6,055.



General Manager

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AGENDA ITEM 12

Exhibit A

OTAY WATER DISTRICT
COMPARATIVE BUDGET SUMMARY
 FOR SIX MONTHS ENDED DECEMBER 31, 2006

	Annual Budget	YTD Actual	YTD Budget	YTD Variance	Var %
REVENUE:					
Water Sales	\$ 29,866,000	\$ 16,873,972	\$ 16,606,700	\$ 267,272	1.6%
Energy Charges	1,853,000	1,136,280	1,063,600	72,680	6.8%
System Charges	8,529,300	4,105,318	4,103,800	1,518	0.0%
Penalties	704,500	386,968	382,200	4,768	1.2%
MWD & CWA Fixed Charges	2,178,000	959,483	958,700	783	0.1%
Total Water Sales	<u>43,130,800</u>	<u>23,462,022</u>	<u>23,115,000</u>	<u>347,022</u>	<u>1.5%</u>
Reclamation Sales	4,485,400	2,347,131	2,317,700	29,431	1.3%
Sewer Charges	2,568,100	1,232,146	1,221,000	11,146	0.9%
Meter Fees	278,500	129,001	139,200	(10,199)	(7.3%)
Capacity Fee Revenues	1,000,200	756,293	500,400	255,893	51.1%
Annexation Fees	1,216,900	1,104,876	608,500	496,376	81.6%
Non-Operating Revenues	1,674,100	745,085	684,800	60,285	8.8%
Tax Revenues	3,427,400	1,383,884	1,337,700	46,184	3.5%
Interest	1,005,600	607,476	502,800	104,676	20.8%
General Fund Draw Down	283,600	141,800	141,800	-	0.0%
Total Revenue	<u>\$ 59,070,600</u>	<u>\$ 31,909,714</u>	<u>\$ 30,568,900</u>	<u>\$ 1,340,814</u>	<u>4.4%</u>
EXPENSES:					
Water Purchases	\$ 22,954,900	\$ 12,880,865	\$ 12,845,100	\$ (35,765)	(0.3%)
CWA-Infrastructure Access Charge	1,003,900	488,371	488,400	29	0.0%
CWA-Customer Service Charge	846,800	406,381	406,200	(181)	(0.0%)
CWA-Emergency Storage Charge	1,230,600	591,188	591,000	(188)	(0.0%)
MWD-Capacity Res Charge	514,800	257,588	257,400	(188)	(0.1%)
MWD-Readiness to Serve Charge	512,200	256,104	256,000	(104)	(0.0%)
Subtotal Water Purchases	<u>27,063,200</u>	<u>14,880,497</u>	<u>14,844,100</u>	<u>(36,397)</u>	<u>(0.2%)</u>
Power Charges	2,677,800	1,363,133	1,338,900	(24,233)	(1.8%)
Payroll & Related Costs	14,606,300	7,051,526	7,299,005	247,479	3.4%
Material & Maintenance	4,623,700	1,959,689	2,311,854	352,165	15.2%
Administrative Expenses	4,888,600	1,967,370	2,459,600	492,230	20.0%
Legal Fees	671,000	322,019	335,500	13,481	4.0%
Replacement Reserve	4,540,000	2,270,000	2,270,000	-	0.0%
Total Expenses	<u>\$ 59,070,600</u>	<u>\$ 29,814,235</u>	<u>\$ 30,858,959</u>	<u>\$ 1,044,724</u>	<u>3.4%</u>
Excess Revenue (Expense)	<u>\$ -</u>	<u>\$ 2,095,479</u>	<u>\$ (290,059)</u>	<u>\$ 2,385,538</u>	

**OTAY WATER DISTRICT
INVESTMENT PORTFOLIO REVIEW
DECEMBER 31, 2006**

INVESTMENT OVERVIEW & MARKET STATUS:

The Federal Reserve Board's federal funds rate remains unchanged since its Jun-06 rise to 5.25%. Investment analysts are now projecting that rates will remain at this level and not drop to 5.0% until the second quarter of 2007. Because of this stability, bond yields have edged back up slightly from levels seen during the last 2 – 3 months. This forecast is uncertain enough that long-term interest rates remain very close to short-term rates, with very little reward for investing in securities beyond 12 – 18 months. There continues to be an inverted yield curve with many bonds in the 2 – 3 year maturity range having a lower yield than shorter term bonds. Based on this assessment, we plan to maintain our current strategy of investing in short-term Federal Agency securities until longer term investments become more attractive.

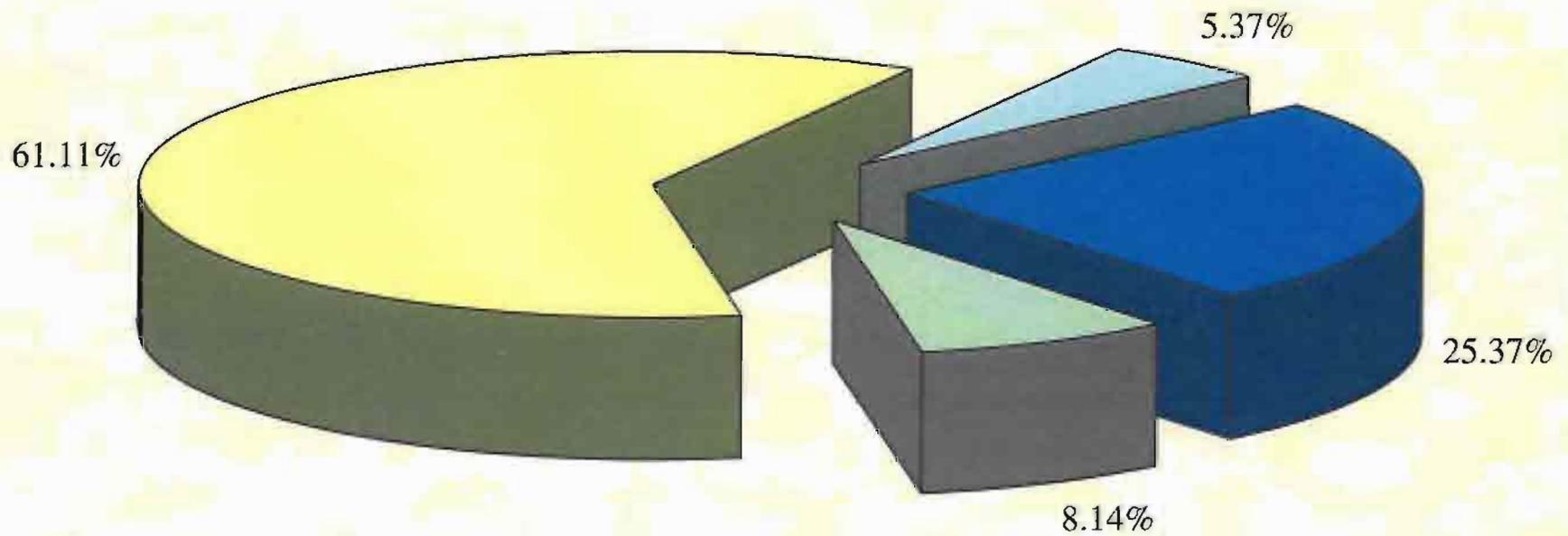
The District's overall return on investment continues to increase as the last of several longer term investments (with rates between 3.0% - 4.5%) mature, while the LAIF return on deposits appears to have stabilized at about 12 – 14 basis points below the federal funds rate. The majority of our investment portfolio is now above 5.0%, and our overall return on investment is within 30 basis points of our strategic goal to meet or exceed 100% of LAIF.

In accordance with the District's Investment Policy, all District funds continue to be managed based on the objectives, in priority order, of safety, liquidity, and return on investment.

PORTFOLIO COMPLIANCE: December 31, 2006

	<u>Investment</u>	<u>State Limit</u>	<u>Otay Limit</u>	<u>Otay Actual</u>
8.01:	Treasury Securities	100%	100%	8.14%
8.02:	Local Agency Investment Fund (LAIF)	\$40 Million	\$40 Million	\$18.6 Million
8.03:	Federal Agency Issues	100%	100%	61.11%
8.04:	Certificates of Deposit	30%	15%	0.11%
8.05:	Short-Term Commercial Notes	25%	15%	0
8.06:	Medium-Term Commercial Debt	30%	15%	0
8.07:	Money Market Mutual Funds	20%	15%	0
8.08:	San Diego County Pool	100%	100%	0.14%
12.0:	Maximum Single Financial Institution	100%	50%	5.26%

Otay Water District Investment Portfolio

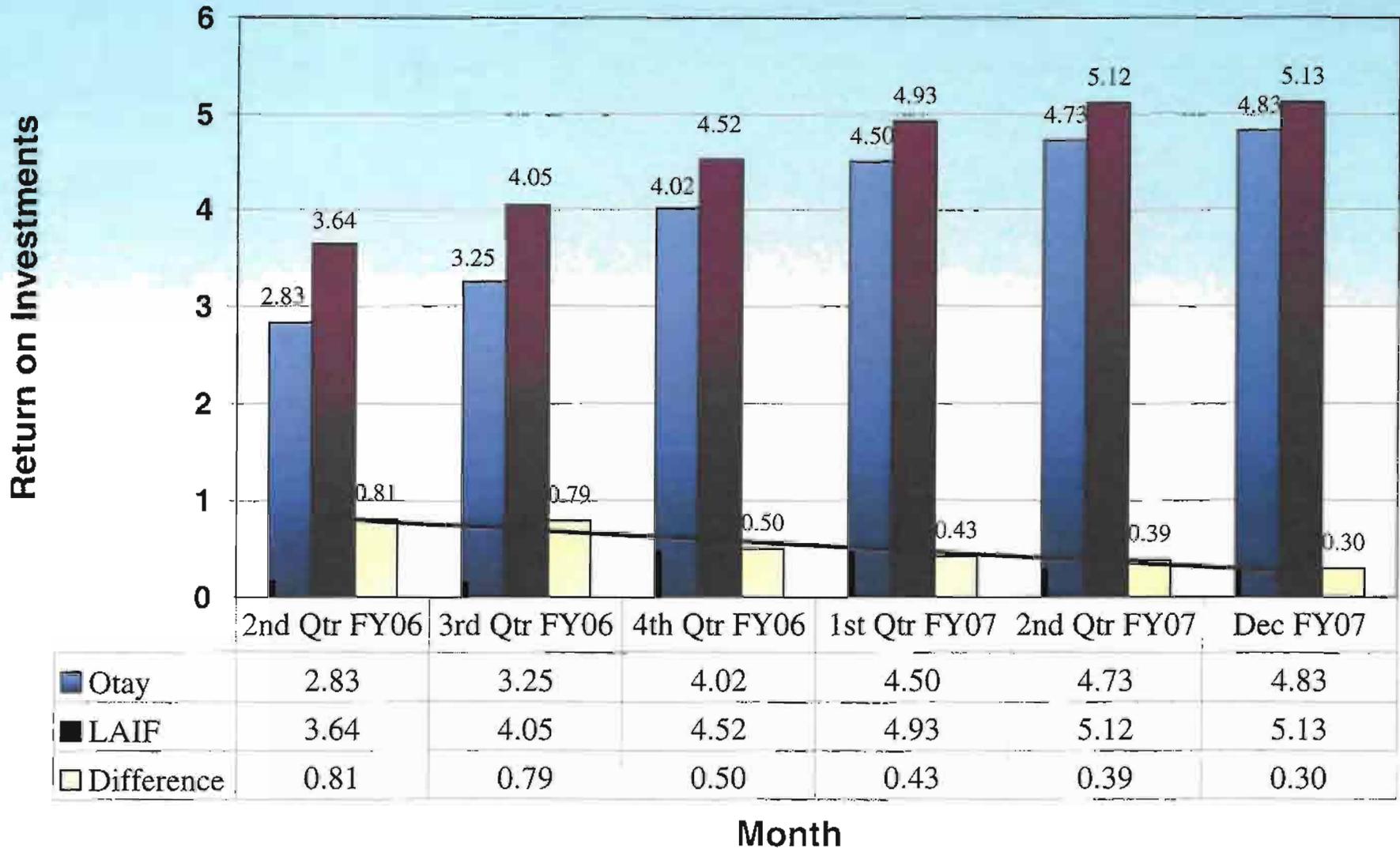


□ Banks (Passbook/Checking/CD) ■ Pools (LAIF & County) □ Treasuries □ Agencies

Performance Measure F-12

Return on Investment

Target: Meet or Exceed 100% of LAIF



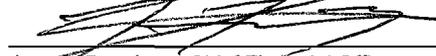
Legend: Otay (blue square), LAIF (dark red square), Difference (yellow square), Linear (Difference) (black line)

OTAY
Portfolio Management
Portfolio Summary
December 31, 2006

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Maturity	YTM 360 Equiv.	YTM 365 Equiv.
Federal Agency Issues- Callable	45,000,000.00	44,923,633.58	44,975,782.52	64.51	463	278	5.115	5.186
Treasury Securities - Coupon	6,000,000.00	5,985,937.50	5,991,683.78	8.59	399	59	4.404	4.465
Certificates of Deposit - Bank	79,108.00	79,108.00	79,108.00	0.11	730	386	3.880	3.934
Local Agency Investment Fund (LAIF)	18,570,270.84	18,557,929.08	18,570,270.84	26.64	1	1	5.059	5.129
San Diego County Pool	102,885.03	102,825.29	102,885.03	0.15	1	1	4.859	4.926
	69,752,263.87	69,649,433.45	69,719,730.17	100.00%	334	185	5.037	5.107
Investments								
Cash								
Passbook/Checking (not included in yield calculations)	3,872,969.64	3,872,969.64	3,872,969.64		1	1	1.231	1.248
Total Cash and Investments	73,625,233.51	73,522,403.09	73,592,699.81		334	185	5.037	5.107

Total Earnings	December 31 Month Ending	Fiscal Year To Date
Current Year	290,292.95	1,674,935.32
Average Daily Balance	70,780,684.50	72,054,965.73
Effective Rate of Return	4.83%	4.61%

I hereby certify that the investments contained in this report are made in accordance with the District Investment Policy Number 27 adopted by the Board of Directors on January 19, 2000. The market value information provided by Interactive Data Corporation. The investments provide sufficient liquidity to meet the cash flow requirements of the District for the next six months of expenditures.


 Joseph Beachem, Chief Financial Officer

1-29-07

Portfolio OTAY
 AP

PM (PRF_PM1) SymRept 6.41.200
 Report Ver. 5.00

OTAY
Portfolio Management
Portfolio Details - Investments
December 31, 2006

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	Moody's	YTM 360	Days to Maturity	Maturity Date
Federal Agency Issues- Callable												
31359M2L6	2012	FANNIE MAE		12/11/2006	3,000,000.00	2,994,375.00	3,000,000.00	5.250		5.178	527	06/11/2008
3133XEMS5	1998	Federal Home Loan Bank		02/28/2006	3,000,000.00	2,991,562.50	3,000,000.00	5.000		4.943	331	11/28/2007
3133XEP45	1999	Federal Home Loan Bank		03/02/2006	3,000,000.00	2,998,125.00	3,000,000.00	5.000		4.932	60	03/02/2007
3133XETX7	2001	Federal Home Loan Bank		03/14/2006	3,000,000.00	2,995,312.50	3,000,000.00	5.125		5.055	256	09/14/2007
3133XF2C9	2002	Federal Home Loan Bank		04/25/2006	3,000,000.00	3,000,000.00	3,000,000.00	5.250		5.175	275	10/03/2007
3133XFBX3	2003	Federal Home Loan Bank		05/04/2006	3,000,000.00	3,000,000.00	3,000,000.00	5.250		5.178	123	05/04/2007
3133XGCU6	2008	Federal Home Loan Bank		07/28/2006	3,000,000.00	3,000,937.50	3,000,000.00	5.450		5.375	28	01/29/2007
3133XHDA	2009	Federal Home Loan Bank		10/20/2006	3,000,000.00	3,000,000.00	3,000,000.00	5.150		5.076	99	04/10/2007
3133XJ2P2	2010	Federal Home Loan Bank		12/05/2006	3,000,000.00	2,996,250.00	3,000,000.00	5.200		5.129	338	12/05/2007
3133XHR46	2011	Federal Home Loan Bank		12/04/2006	3,000,000.00	3,000,000.00	3,000,000.00	5.300		5.225	500	05/15/2008
3133XJ6Q6	2013	Federal Home Loan Bank		12/29/2006	3,000,000.00	2,986,875.00	3,000,000.00	5.125		5.055	728	12/29/2008
3128X4K67	2000	Federal Home Loan Mortgage		03/07/2006	3,000,000.00	2,990,984.80	3,000,000.00	5.250		5.178	431	03/07/2008
3128X4DY4	2004	Federal Home Loan Mortgage		05/18/2006	3,000,000.00	2,980,413.21	2,981,519.42	4.000		5.129	193	07/13/2007
3128X4CE9	2005	Federal Home Loan Mortgage		05/18/2006	3,000,000.00	2,994,423.07	2,994,263.10	3.625		5.161	45	02/15/2007
31359MG31	1997	Federal National Mortgage Assoc		02/24/2006	3,000,000.00	2,994,375.00	3,000,000.00	5.000		4.932	235	08/24/2007
Subtotal and Average			47,295,182.93		45,000,000.00	44,923,633.58	44,975,782.52			5.115	278	
Treasury Securities - Coupon												
912828DJ6	1993	US TREASURY		01/26/2006	3,000,000.00	2,995,312.50	2,996,837.84	3.125		4.376	30	01/31/2007
912828DQ0	1994	US TREASURY		01/26/2006	3,000,000.00	2,990,625.00	2,994,845.94	3.750		4.431	89	03/31/2007
Subtotal and Average			5,989,234.03		6,000,000.00	5,985,937.50	5,991,683.78			4.404	59	
Certificates of Deposit - Bank												
2050003183R	1996	California Bank & Trust		01/22/2006	79,108.00	79,108.00	79,108.00	3.880		3.880	386	01/22/2008
Subtotal and Average			79,108.00		79,108.00	79,108.00	79,108.00			3.880	386	
Local Agency Investment Fund (LAIF)												
LAIF	9001	STATE OF CALIFORNIA		07/01/2004	18,570,270.84	18,557,929.08	18,570,270.84	5.129		5.059	1	
Subtotal and Average			15,518,657.94		18,570,270.84	18,557,929.08	18,570,270.84			5.059	1	
San Diego County Pool												
SD COUNTY POOL	9007	STATE OF CALIFORNIA		07/01/2004	102,885.03	102,825.29	102,885.03	4.926		4.859	1	
Subtotal and Average			102,885.03		102,885.03	102,825.29	102,885.03			4.859	1	

Portfolio OTAY

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OTAY
Portfolio Management
Portfolio Details - Investments
December 31, 2006

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	Moody's	YTM 360	Days to Maturity
Total and Average			70,780,684.50		69,752,263.87	69,649,433.45	69,719,730.17			5.037	185

OTAY
Portfolio Management
Portfolio Details - Cash
December 31, 2006

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	Moody's	YTM 360	Days to Maturity
Union Bank											
UNION BANK	9002	STATE OF CALIFORNIA		07/01/2004	3,011,000.93	3,011,000.93	3,011,000.93	1.400		1.381	1
PETTY CASH	9003	STATE OF CALIFORNIA		07/01/2004	2,800.00	2,800.00	2,800.00			0.000	1
CALIF BANK & TR	9004	STATE OF CALIFORNIA		07/01/2004	670,987.82	670,987.82	670,987.82			0.000	1
PAYROLL	9005	STATE OF CALIFORNIA		07/01/2004	54,522.17	54,522.17	54,522.17			0.000	1
UNION IOC	9008	STATE OF CALIFORNIA		05/01/2006	133,658.72	133,658.72	133,658.72	4.630		4.567	1
		Average Balance	0.00								1
Total Cash and Investmentss			70,780,684.50		73,625,233.51	73,522,403.09	73,592,699.81			5.037	185

OTAY
Activity Report
Sorted By Issuer
July 1, 2006 - December 31, 2006

CUSIP	Investment #	Issuer	Percent of Portfolio	Par Value Beginning Balance	Current Rate	Transaction Date	Purchases or Deposits	Par Value Redemptions or Withdrawals	Ending Balance	
Issuer: STATE OF CALIFORNIA										
Union Bank										
UNION BANK	9002	STATE OF CALIFORNIA			1.400		39,077,558.05	36,121,575.40		
CALIF BANK & TR	9004	STATE OF CALIFORNIA					3,102,211.18	3,327,306.93		
PAYROLL	9005	STATE OF CALIFORNIA					7,524.25	1,901.01		
UNION IOC	9008	STATE OF CALIFORNIA			4.630		10,053,325.61	9,950,359.86		
Subtotal and Balance				1,033,493.75			52,240,619.09	49,401,143.20	3,872,969.64	
Local Agency Investment Fund (LAIF)										
LAIF	9001	STATE OF CALIFORNIA			5.129		24,352,750.49	18,350,000.00		
Subtotal and Balance				12,567,520.35			24,352,750.49	18,350,000.00	18,570,270.84	
San Diego County Pool										
SD COUNTY POOL	9007	STATE OF CALIFORNIA			4.926		3,793.30	0.00		
Subtotal and Balance				99,091.73			3,793.30	0.00	102,885.03	
Issuer Subtotal				30.623%			13,700,105.83	76,597,162.88	67,751,143.20	22,546,125.51
Issuer: California Bank & Trust										
Certificates of Deposit - Bank										
Subtotal and Balance				79,108.00					79,108.00	
Issuer Subtotal				0.107%			0.00	0.00	79,108.00	
Issuer: FANNIE MAE										
Federal Agency Issues- Callable										
31359M2L6	2012	FANNIE MAE			5.250	12/11/2006	3,000,000.00	0.00		
Subtotal and Balance				0.00			3,000,000.00	0.00	3,000,000.00	
Issuer Subtotal				4.075%			3,000,000.00	0.00	3,000,000.00	

Portfolio OTAY

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OTAY
Activity Report
July 1, 2006 - December 31, 2006

CUSIP	Investment #	Issuer	Percent of Portfolio	Par Value Beginning Balance	Current Rate	Transaction Date	Purchases or Deposits	Par Value Redemptions or Withdrawals	Ending Balance
Issuer: Federal Home Loan Bank									
Federal Agency Issues- Callable									
3133X5ZG6	1977	Federal Home Loan Bank		2.510	07/28/2006		0.00	3,000,000.00	
3133X6LN4	1980	Federal Home Loan Bank		2.650	08/10/2006		0.00	3,000,000.00	
3133X8KE1	1988	Federal Home Loan Bank		3.025	12/29/2006		0.00	3,000,000.00	
3133X8KC5	1989	Federal Home Loan Bank		3.000	09/28/2006		0.00	3,000,000.00	
3133XARM1	1990	Federal Home Loan Bank		3.470	09/08/2006		0.00	3,000,000.00	
3133XASF5	1991	Federal Home Loan Bank		3.500	12/08/2006		0.00	3,000,000.00	
3133XARK5	1992	Federal Home Loan Bank		3.510	12/08/2006		0.00	3,000,000.00	
3133XFS72	2007	Federal Home Loan Bank		5.350	12/28/2006		0.00	3,000,000.00	
3133XGCU6	2008	Federal Home Loan Bank		5.450	07/28/2006		3,000,000.00	0.00	
3133XHDA	2009	Federal Home Loan Bank		5.150	10/20/2006		3,000,000.00	0.00	
3133XJ2P2	2010	Federal Home Loan Bank		5.200	12/05/2006		3,000,000.00	0.00	
3133XHR46	2011	Federal Home Loan Bank		5.300	12/04/2006		3,000,000.00	0.00	
3133XJ6Q6	2013	Federal Home Loan Bank		5.125	12/29/2006		3,000,000.00	0.00	
		Subtotal and Balance		39,000,000.00			15,000,000.00	24,000,000.00	30,000,000.00
		Issuer Subtotal	40.747%	39,000,000.00			15,000,000.00	24,000,000.00	30,000,000.00
Issuer: Federal Home Loan Mortgage									
Federal Agency Issues- Callable									
3128X5CC0	2006	Federal Home Loan Mortgage		5.340	12/01/2006		0.00	3,000,000.00	
		Subtotal and Balance		12,000,000.00			0.00	3,000,000.00	9,000,000.00
		Issuer Subtotal	12.224%	12,000,000.00			0.00	3,000,000.00	9,000,000.00
Issuer: Federal National Mortgage Assoc									
Federal Agency Issues- Callable									
		Subtotal and Balance		3,000,000.00					3,000,000.00
		Issuer Subtotal	4.075%	3,000,000.00			0.00	0.00	3,000,000.00
Issuer: US TREASURY									
Treasury Securities - Coupon									

OTAY
Activity Report
July 1, 2006 - December 31, 2006

CUSIP	Investment #	Issuer	Percent of Portfolio	Par Value Beginning Balance	Current Rate	Transaction Date	Purchases or Deposits	Par Value Redemptions or Withdrawals	Ending Balance
Issuer: US TREASURY									
Treasury Securities - Coupon									
912827262	1995	US TREASURY			6.500	10/15/2006	0.00	3,000,000.00	
		Subtotal and Balance		9,000,000.00			0.00	3,000,000.00	6,000,000.00
		Issuer Subtotal	8.149%	9,000,000.00			0.00	3,000,000.00	6,000,000.00
		Total	100.000%	76,779,213.83			94,597,162.88	97,751,143.20	73,625,233.51

OTAY
Duration Report
Sorted by Investment Type - Investment Type
Through 12/31/2006

Security ID	Investment #	Fund	Issuer	Investment Class	Book Value	Par Value	Market Value	Current Rate	YTM 365	Current Yield	Maturity/Call Date	Effective Duration
3133XFBX3	2003	99	Federal Home Loan Bank	Fair	3,000,000.00	3,000,000.00	3,000,000.00	5.250	5.250	5.250 c	02/04/2007	0.000
3133XF2C9	2002	99	Federal Home Loan Bank	Fair	3,000,000.00	3,000,000.00	3,000,000.00	5.250	5.247	5.261	10/03/2007	0.723
3133XEMS5	1998	99	Federal Home Loan Bank	Fair	3,000,000.00	3,000,000.00	2,991,562.50	5.000	5.012	5.578 c	02/28/2007	0.158
3133XEP45	1999	99	Federal Home Loan Bank	Fair	3,000,000.00	3,000,000.00	2,998,125.00	5.000	5.000	5.128	03/02/2007	0.164
31359M2L6	2012	99	FANNIE MAE	Fair	3,000,000.00	3,000,000.00	2,994,375.00	5.250	5.250	5.636 c	06/11/2007	0.441
3133XETX7	2001	99	Federal Home Loan Bank	Fair	3,000,000.00	3,000,000.00	2,995,312.50	5.125	5.125	5.366	09/14/2007	0.672
3128X4K67	2000	99	Federal Home Loan Mortgage	Fair	3,000,000.00	3,000,000.00	2,990,984.80	5.250	5.250	5.523	03/07/2008	1.114
3133XHDA	2009	99	Federal Home Loan Bank	Fair	3,000,000.00	3,000,000.00	3,000,000.00	5.150	5.146	5.150	04/10/2007	0.271
3128X4DY4	2004	99	Federal Home Loan Mortgage	Fair	2,981,519.42	3,000,000.00	2,980,413.21	4.000	5.200	5.341 c	01/13/2007	0.032
3128X4CE9	2005	99	Federal Home Loan Mortgage	Fair	2,994,263.10	3,000,000.00	2,994,423.07	3.625	5.232	4.004	02/15/2007	0.123
3133XHR46	2011	99	Federal Home Loan Bank	Fair	3,000,000.00	3,000,000.00	3,000,000.00	5.300	5.298	5.300 c	02/15/2007	0.000
31359MG31	1997	99	Federal National Mortgage Assoc	Fair	3,000,000.00	3,000,000.00	2,994,375.00	5.000	5.000	5.385 c	02/24/2007	0.147
3133XJ6Q6	2013	99	Federal Home Loan Bank	Fair	3,000,000.00	3,000,000.00	2,986,875.00	5.125	5.125	6.026 c	06/29/2007	0.490
3133XGCU6	2008	99	Federal Home Loan Bank	Fair	3,000,000.00	3,000,000.00	3,000,937.50	5.450	5.450	5.101	01/29/2007	0.075
3133XJ2P2	2010	99	Federal Home Loan Bank	Fair	3,000,000.00	3,000,000.00	2,996,250.00	5.200	5.200	5.457 c	03/05/2007	0.000
912828DQ0	1994	99	US TREASURY	Fair	2,994,845.94	3,000,000.00	2,990,625.00	3.750	4.492	4.389	03/31/2007	0.243
912828DJ6	1993	99	US TREASURY	Fair	2,996,837.84	3,000,000.00	2,995,312.50	3.125	4.437	3.443	01/31/2007	0.082
2050003183R	1996	99	California Bank & Trust	Amort	79,108.00	79,108.00	79,108.00	3.880	3.934	3.880	01/22/2008	1.033 †
Report Total					51,046,574.30	51,079,108.00	50,988,679.08			5.135		0.279 †

† = Duration can not be calculated on these investments due to incomplete Market price data.

Portfolio OTAY
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DU (PRF_DU) SymRept 6.41.200
Report Ver. 5.00



AGENDA ITEM 12

STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	February 7, 2007
SUBMITTED BY:	Sean Prendergast, Principal Accountant	W.O./G.F. NO:	DIV. NO.
APPROVED BY: (Chief)	Joseph Beachem, Chief Financial Officer		
APPROVED BY: (Asst. GM):	German Alvarez, Assistant General Manager		
SUBJECT:	Accounts Payable Demand List		

PURPOSE:

Attached is the list of demands for the Board's information.

FISCAL IMPACT:

SUMMARY	NET DEMANDS
CHECKS (2004204-2004700)	\$2,543,695.31
WIRE TO:	
CITY OF CHULA VISTA - BI-MONTHLY SEWER CHARGES	\$2,396,687.50
LANDESBANK - CERTIFICATES OF PARTICIPATION	\$56,552.54
PLAN HANDLERS - MEDICAL CLAIMS	\$318,565.67
SAN DIEGO COUNTY WATER AUTHORITY - NOVEMBER	\$2,100,539.30
SAN DIEGO COUNTY WATER AUTHORITY - 2ND QTR CAP FEES	\$601,236.00
UNION BANK - PAYROLL TAXES	\$263,511.82
TOTAL CASH DISBURSEMENTS	\$8,280,788.14

RECOMMENDED ACTION:

That the Board receive the attached list of demands.

jb

Attachment

OTAY WATER DISTRICT
CHECK REGISTER
FOR CHECKS 2004205 THROUGH 2004700
RUN DATES 1/3/2007 TO 1/31/2007

Check #	Date	Vendor	Vendor name	Invoice	Inv Date	Description	Amount Paid	Check Total
2004346	01/17/07	04208	A PARTY RENTALS	0104075128	05/23/06	EQUIPMENT RENTAL	1,415.16	1,415.16
2004401	01/24/07	02164	AAA RADIATOR WAREHOUSE	01114143	01/02/07	REPAIR PARTS	132.99	132.99
2004205	01/03/07	01910	ABCANA INDUSTRIES	785124	12/11/06	SODIUM HYPOCHLORITE	1,905.84	
				785125	12/11/06	SODIUM HYPOCHLORITE	382.89	2,288.73
2004254	01/10/07	01910	ABCANA INDUSTRIES	785448	12/18/06	SODIUM HYPOCHLORITE	1,442.92	
				785447	12/18/06	SODIUM HYPOCHLORITE	960.30	
				785613	12/21/06	SODIUM HYPOCHLORITE	499.85	2,903.07
2004347	01/17/07	01910	ABCANA INDUSTRIES	785761	12/27/06	SODIUM HYPOCHLORITE	700.53	
				785762	12/27/06	SODIUM HYPOCHLORITE	280.70	981.23
2004402	01/24/07	01910	ABCANA INDUSTRIES	785919	01/03/07	SODIUM HYPOCHLORITE	664.82	664.82
2004634	01/31/07	01910	ABCANA INDUSTRIES	786108	01/09/07	SODIUM HYPOCHLORITE	866.74	
				786109	01/09/07	SODIUM HYPOCHLORITE	588.49	1,455.23
2004206	01/03/07	00179	ACRO SALES COMPANY INC	6614	12/12/06	REPAIR PRESSURE GAUGE	180.00	180.00
2004635	01/31/07	03156	ACTIVE GRAPHIX	00060851	01/08/07	UNIFORM APPAREL	2,756.14	2,756.14
2004255	01/10/07	00421	ADVANCED DIESEL INJECTION INC	28540	11/29/06	REPAIR PARTS	835.53	835.53
2004493	01/25/07	06683	AIDA BAUTISTA	Ref002371327	01/23/07	UB Refund Cst #0000028971	10.40	10.40
2004494	01/25/07	06744	AIDET MERCADO	Ref002371388	01/23/07	UB Refund Cst #0000090100	75.00	75.00
2004403	01/24/07	00132	AIRGAS WEST	103265880	12/31/06	BREATHING AIR	21.08	21.08
2004495	01/25/07	06680	ALBA R FIERRO	Ref002371324	01/23/07	UB Refund Cst #0000022474	75.00	75.00
2004496	01/25/07	06702	ALBERT MENDIVIL	Ref002371346	01/23/07	UB Refund Cst #0000047344	18.12	18.12
2004497	01/25/07	06772	ALEJANDRO ESTRADA	Ref002371416	01/23/07	UB Refund Cst #0000075738	75.00	75.00
2004348	01/17/07	02362	ALLIED WASTE SERVICES	0509002620622	12/25/06	TRASH REMOVAL SERVICES	621.83	
				0509002622194	12/25/06	ASBESTOS DISPOSAL CONTAINER RENTAL	171.23	
				0509002623291	12/25/06	TRASH REMOVAL SERVICES	63.38	856.44
2004404	01/24/07	05414	AMARR ENTERPRISES	015581	01/04/07	EMPLOYEE RECOGNITION SHIRTS 2007	132.53	132.53
2004636	01/31/07	05414	AMARR ENTERPRISES	015580	01/05/07	EMPLOYEE RECOGNITION SHIRTS 2007	63.57	63.57
2004498	01/25/07	06745	AMBER MICKELSEN	Ref002371389	01/23/07	UB Refund Cst #0000090252	33.10	33.10

OTAY WATER DISTRICT
CHECK REGISTER
FOR CHECKS 2004205 THROUGH 2004700
RUN DATES 1/3/2007 TO 1/31/2007

Check #	Date	Vendor	Vendor name	Invoice	Inv Date	Description	Amount Paid	Check Total
2004637	01/31/07	06416	AMERICAN ARBITRATION	015610	01/11/07	CASE #73110J0020106 JISI	2,400.00	2,400.00
2004256	01/10/07	02966	AMERICAN INDUSTRIAL SUPPLY INC	82184	12/20/06	ANTI-SIEZE COMPOUND	238.12	238.12
2004207	01/03/07	06166	AMERICAN MESSAGING	L1109570HA	01/01/07	PAGER SERVICES	485.42	485.42
2004257	01/10/07	06166	AMERICAN MESSAGING	L1034315HA	01/01/07	PAGER SERVICES	8.13	8.13
2004638	01/31/07	00107	AMERICAN WATER WORKS	3000203164 3000203160	01/23/07 01/23/07	AWWA RESEARCH SYMPOSIUM AWWA RESEARCH SYMPOSIUM	450.00 450.00	900.00
2004499	01/25/07	06716	AMIHAI FINKELSTEIN	Ref002371360	01/23/07	UB Refund Cst #0000086656	60.27	60.27
2004500	01/25/07	06708	ANDREA QUIGLEY	Ref002371352	01/23/07	UB Refund Cst #0000086022	28.30	28.30
2004501	01/25/07	06687	ANDRES CASTELLANOS	Ref002371331	01/23/07	UB Refund Cst #0000034570	47.38	47.38
2004405	01/24/07	00002	ANSWER INC	015593	12/22/06	ANSWERING SERVICES	982.50	982.50
2004258	01/10/07	02829	APPLIED TECHNOLOGY GROUP INC	178541	12/20/06	ANTENNA CONNECTORS	738.93	738.93
2004502	01/25/07	06799	ASIM AWAN	Ref002371444	01/23/07	UB Refund Cst #0000085053	39.37	39.37
2004406	01/24/07	05514	ASSOCIATED TOWING	368060	12/29/06	TOWING	55.00	55.00
2004407	01/24/07	05758	AT&T	015602	01/07/07	PHONE SERVICE	33.29	33.29
2004408	01/24/07	06296	AT&T LONG DISTANCE	8093779955	01/04/07	LONG DISTANCE EXPENSES	100.43	100.43
2004259	01/10/07	06272	AT&T/MCI	T5971498	12/16/06	PHONE SERVICE	735.16	735.16
2004349	01/17/07	06272	AT&T/MCI	T5975721	12/17/06	PHONE SERVICE	6,577.95	6,577.95
2004503	01/25/07	06755	ATOMIC INVESTMENTS INC	Ref002371399	01/23/07	UB Refund Cst #0000091973	632.66	632.66
2004504	01/25/07	06704	BARBARA J CANADA	Ref002371348	01/23/07	UB Refund Cst #0000051022	30.44	30.44
2004639	01/31/07	00145	BARRETT ENGINEERED PUMPS	053669	01/05/07	GOULDS 1 HP PUMP (PATZIG OUT SAMPLE PUM	754.25	754.25
2004350	01/17/07	06285	BARTEL ASSOCIATES, LLC	06477	12/20/06	ACTUARIAL CONSULTING SVCS	7,850.00	7,850.00
2004505	01/25/07	06784	BAYLEY CONSTRUCTION	Ref002371428	01/23/07	UB Refund Cst #0000081270	770.65	770.65
2004640	01/31/07	02570	BEST LIFE & HEALTH INSURANCE	015616	01/01/07	VOLUNTARY LIFE INSURANCE	215.65	215.65

OTAY WATER DISTRICT
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2004208	01/03/07	02787	BEST RENTALS INC	R31282	12/13/06	CONCRETE	75.43	75.43
2004506	01/25/07	06740	BLANCA ALVILLAR	Ref002371384	01/23/07	UB Refund Cst #0000089696	70.63	70.63
2004209	01/03/07	02197	BLUE CROSS OF CALIFORNIA	40496	12/15/06	EMPLOYEE ASSISTANCE PROGRAM	557.74	557.74
2004409	01/24/07	02197	BLUE CROSS OF CALIFORNIA	40508	01/15/07	EMPLOYEE ASSISTANCE PROGRAM	568.33	568.33
2004210	01/03/07	03470	BONITA BUSINESS &	015551	12/11/06	MEMBERSHIP DUE FOR 2007	250.00	250.00
2004351	01/17/07	02342	BOOT WORLD INC	1032894IN 1027570IN	12/28/06 03/31/06	SAFETY BOOTS SAFETY BOOTS	126.63 106.65	233.28
2004410	01/24/07	02342	BOOT WORLD INC	1033006IN	12/31/06	SAFETY BOOTS	77.56	77.56
2004411	01/24/07	00559	BOYLE ENGINEERING CORPORATION	038639	12/12/06	RECYCLED WATER PLANCHECK & INSP SVCS	13,349.89	13,349.89
2004507	01/25/07	06750	BRAVO VERONICA	Ref002371394	01/23/07	UB Refund Cst #0000090710	75.00	75.00
2004508	01/25/07	06782	BRENNA STURM	Ref002371426	01/23/07	UB Refund Cst #0000081264	12.29	12.29
2004211	01/03/07	01232	BRODING'S BATTERY WAREHOUSE	43618 43896	12/01/06 12/11/06	AUTOMOBILE BATTERIES AUTOMOBILE BATTERY	161.52 64.60	226.12
2004352	01/17/07	01232	BRODING'S BATTERY WAREHOUSE	44069 44401 44448	12/14/06 12/28/06 12/28/06	AUTOMOTIVE BATTERIES SUBLET REPAIR AUTOMOTIVE BATTERIES	452.33 129.30 64.60	646.23
2004412	01/24/07	01232	BRODING'S BATTERY WAREHOUSE	44496	01/02/07	SUBLET REPAIR	159.10	159.10
2004260	01/10/07	03721	BULLET LOGISTICS INC	12150603350	12/15/06	COURIER SERVICES	227.70	227.70
2004641	01/31/07	06662	BUREAU VERITAS NORTH AMERICA	64695 64699	12/07/06 12/07/06	PLANCHECK & INSPECTION SVCS PLANCHECK & INSPECTION SVCS	1,670.29 328.00	1,998.29
2004212	01/03/07	00223	C W MCGRATH INC	23059 23082	12/12/06 12/13/06	CRUSHED ROCK CRUSHED ROCK	458.30 103.53	561.83
2004642	01/31/07	00223	C W MCGRATH INC	23335 23356	01/05/07 01/08/07	CRUSHED ROCK CRUSHED ROCK	527.12 338.66	865.78
2004261	01/10/07	05652	CALIBER COLLISION CENTERS	16418	11/28/06	BODY REPAIR	1,632.32	1,632.32
2004213	01/03/07	00192	CALIFORNIA WATER ENVIRONMENT	015550	12/12/06	CERTIFICATE RENEWAL	66.00	66.00
2004214	01/03/07	02584	CALIFORNIA WATER ENVIRONMENT	015552	01/02/07	CLASS REGISTRATION FEE	50.00	50.00

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2004413	01/24/07	02972	CALIFORNIA WATER ENVIRONMENTAL	015609	01/24/07	MEMBERSHIP RENEWALS	330.00	330.00
2004215	01/03/07	01004	CALOLYMPIC SAFETY	011281 011798	12/12/06 12/12/06	CALIBRATION GAS CHLORINE SAFETY SIGNS AND TIE OFF	562.85 39.23	602.08
2004262	01/10/07	01004	CALOLYMPIC SAFETY	010911 011816	12/12/06 12/21/06	LUMIDOR MICRO MAX REGULATOR/ BUMP GAS CHLORINE SAFETY SIGNS AND TIE OFF	432.54 102.45	534.99
2004353	01/17/07	01004	CALOLYMPIC SAFETY	011834	12/08/06	SAFETY SUPPLIES	548.47	548.47
2004509	01/25/07	06673	CANDONINO FRANCHE	Ref002371317	01/23/07	UB Refund Cst #0000010830	75.00	75.00
2004414	01/24/07	03684	CANON BUSINESS SOLUTIONS-WEST	3644736	01/01/07	COPIER MAINTENANCE	296.73	296.73
2004643	01/31/07	03684	CANON BUSINESS SOLUTIONS-WEST	3647778 3647778A	01/07/07 01/07/07	COPIER MAINTENANCE COPIER MAINTENANCE	383.37 50.13	433.50
2004510	01/25/07	06776	CARL DARNELL	Ref002371420	01/23/07	UB Refund Cst #0000079057	75.00	75.00
2004511	01/25/07	06762	CARLOS EVANS	Ref002371406	01/23/07	UB Refund Cst #0000069412	653.20	653.20
2004644	01/31/07	03572	CARLTON, DISANTE &	43769 43768	12/29/06 12/29/06	LEGAL SERVICES NOVEMBER 2006 LEGAL SERVICES NOVEMBER 2006	52,909.97 9,755.48	62,665.45
2004415	01/24/07	02758	CARMEL BUSINESS SYSTEMS INC	6401	01/02/07	STORAGE & DESTRUCTION OF DOCUMENTS	1,483.85	1,483.85
2004645	01/31/07	02758	CARMEL BUSINESS SYSTEMS INC	6405	01/09/07	SCANNING RECORD	673.71	673.71
2004416	01/24/07	03491	CASA DE ORO CARWASH	324	01/02/07	CAR WASH SERVICES	1,675.00	1,675.00
2004216	01/03/07	03232	CDW GOVERNMENT INC	CTR7311	12/11/06	RECORDER	50.97	50.97
2004512	01/25/07	06668	CELIA AVINA	Ref002371312	01/23/07	UB Refund Cst #0000005452	75.00	75.00
2004513	01/25/07	06671	CENTEX HOMES	Ref002371315	01/23/07	UB Refund Cst #0000008965	452.00	452.00
2004514	01/25/07	06675	CENTEX HOMES	Ref002371319	01/23/07	UB Refund Cst #0000014697	179.99	179.99
2004515	01/25/07	06677	CENTEX HOMES	Ref002371321	01/23/07	UB Refund Cst #0000018326	1,182.56	1,182.56
2004263	01/10/07	01126	CENTURY WHEEL & RIM	CN4453201	12/19/06	SAFETY CHAINS AND HOOKS	865.25	865.25
2004516	01/25/07	06714	CHARLES ARSEULT	Ref002371358	01/23/07	UB Refund Cst #0000086520	75.00	75.00
2004517	01/25/07	06684	CHARLES KEIDERLING	Ref002371328	01/23/07	UB Refund Cst #0000030171	41.76	41.76

OTAY WATER DISTRICT
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Check #	Date	Vendor	Vendor name	Invoice	Inv Date	Description	Amount Paid	Check Total
2004518	01/25/07	06701	CHARLES M ACHINAKIAN	Ref002371345	01/23/07	UB Refund Cst #0000046501	118.54	118.54
2004519	01/25/07	06712	CHARLES MCQUISTON	Ref002371356	01/23/07	UB Refund Cst #0000086460	57.17	57.17
2004520	01/25/07	06763	CHERRY REYES	Ref002371407	01/23/07	UB Refund Cst #0000070340	112.36	112.36
2004264	01/10/07	06652	CHILD SUPPORT SERVICES	Ben2370918	01/09/07	PAYROLL DEDUCTION	603.69	603.69
2004388	01/24/07	06652	CHILD SUPPORT SERVICES	Ben2371267	01/23/07	PAYROLL DEDUCTION	655.38	655.38
2004417	01/24/07	02026	CHULA VISTA ELEMENTARY SCHOOL	30486 30488	01/09/07 01/09/07	BUS FUNDING FOR FIELD TRIP TO GARDEN BUS FUNDING FOR FIELD TRIP TO GARDEN	490.00 245.00	735.00
2004265	01/10/07	05008	CINGULAR WIRELESS	015570	01/08/07	WIRELESS PHONE SERVICE	16.42	16.42
2004266	01/10/07	06656	CITY OF CHULA VISTA	015583	01/08/07	ENCROACHMENT PERMIT DEPOSIT	3,000.00	3,000.00
2004418	01/24/07	00944	CITY OF SAN DIEGO	015601	12/31/06	BI-MONTHLY SEWER CHARGES	61,526.36	61,526.36
2004267	01/10/07	00234	CITY TREASURER	C456790	01/03/07	WATER DELIVERIES	25,858.08	25,858.08
2004419	01/24/07	04119	CLARKSON LAB & SUPPLY INC	32336 32412	12/31/06 12/31/06	BACTERIOLOGICAL ANALYSIS BACTERIOLOGICAL ANALYSIS	354.00 282.00	636.00
2004268	01/10/07	01666	COMMERCIAL PRINTING CENTRE	42501	12/20/06	DOOR HANGERS	369.13	369.13
2004646	01/31/07	01666	COMMERCIAL PRINTING CENTRE	42685	01/10/07	FIELD DOOR TAGS	408.10	408.10
2004521	01/25/07	06685	CONNIE SALLEE	Ref002371329	01/23/07	UB Refund Cst #0000033770	75.00	75.00
2004269	01/10/07	04398	CONSTRUCTION MANAGEMENT	015576	01/03/07	REGISTRATION FEE	55.00	55.00
2004270	01/10/07	03706	CONSUMERS PIPE & SUPPLY CO	S1014185002 S1014185001	12/15/06 12/13/06	INDUSTRIAL SUPPLIES INDUSTRIAL SUPPLIES	127.66 26.77	154.43
2004420	01/24/07	03706	CONSUMERS PIPE & SUPPLY CO	S1015627001 S1015135001 S1014387001 S1015620001	 01/03/07 01/01/07 12/29/06	PVC SOCKET WAREHOUSE SUPPLIES WAREHOUSE SUPPLIES WAREHOUSE SUPPLIES	(139.64) 321.89 244.64 193.95	620.84
2004647	01/31/07	03706	CONSUMERS PIPE & SUPPLY CO	S1003428005 S1003428002	 09/11/06	CREDIT MEMO PIPE & FITTINGS	(58.19) 251.70	193.51
2004271	01/10/07	02612	COUNCIL OF WATER UTILITIES	015562	01/03/07	MONTHLY MEETING	40.00	40.00

OTAY WATER DISTRICT
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2004354	01/17/07	02612	COUNCIL OF WATER UTILITIES	015585	01/10/07	MEETING REGISTRATION	40.00	40.00
2004272	01/10/07	02714	COUNTY OF SAN DIEGO	DEH070099D11 DEH070088D11	12/13/06 12/13/06	RECLAIMED WATER SHUT DOWN TEST RECLAIMED WATER SHUT DOWN TEST	1,035.00 517.50	1,552.50
2004522	01/25/07	06710	COVANTA POWER PACIFIC INC	Ref002371354	01/23/07	UB Refund Cst #0000086068	410.13	410.13
2004523	01/25/07	06679	CRAIG WOELK	Ref002371323	01/23/07	UB Refund Cst #0000020192	20.61	20.61
2004273	01/10/07	05125	CUDLIP, JAMES	015558	01/03/07	REIMB FOR T-2 EXAM & CERTIFICATE FEES	125.00	125.00
2004524	01/25/07	06707	CUSTOM ROAD	Ref002371351	01/23/07	UB Refund Cst #0000086019	50.83	50.83
2004525	01/25/07	06723	DALEY CONSTRUCTION CORPORATION	Ref002371367	01/23/07	UB Refund Cst #0000088122	694.76	694.76
2004526	01/25/07	06715	DAN PICHLER	Ref002371359	01/23/07	UB Refund Cst #0000086640	9.46	9.46
2004274	01/10/07	01822	DANIEL BOYLE ENGINEERING INC	11586	12/19/06	1485-2 RESERVOIR	4,698.81	4,698.81
2004527	01/25/07	06705	DANNY MACENO	Ref002371349	01/23/07	UB Refund Cst #0000056260	23.96	23.96
2004528	01/25/07	06746	DARREN GREENHALGH	Ref002371390	01/23/07	UB Refund Cst #0000090345	561.71	561.71
2004648	01/31/07	06814	DARYL HOLMES	RF5170218800	01/30/07	REFUND SEWER DEBT	216.00	216.00
2004649	01/31/07	03354	DATAPROSE INC	39011 39010	01/05/07 01/05/07	DECEMBER POSTAGE BILLING PRINT SERVICES	14,618.79 8,498.45	23,117.24
2004421	01/24/07	04550	DATATREE	900340126	12/31/06	MAP PURCHASING SERVICE	99.00	99.00
2004529	01/25/07	06713	DAWN HARMON	Ref002371357	01/23/07	UB Refund Cst #0000086514	74.13	74.13
2004530	01/25/07	06783	DEBORAH A FRAZIER	Ref002371427	01/23/07	UB Refund Cst #0000081265	34.63	34.63
2004422	01/24/07	00852	DEC CONSULTANTS INC	U122112	12/31/06	CATHODIC PROTECT PROG CONSULTING SVCS	10,973.60	10,973.60
2004531	01/25/07	06690	DEIDRE HOLLIS	Ref002371334	01/23/07	UB Refund Cst #0000036100	55.88	55.88
2004275	01/10/07	03428	DEL MAR OFFICE PRODUCTS	9437800	12/19/06	OFFICE SUPPLIES	15.35	15.35
2004650	01/31/07	03428	DEL MAR OFFICE PRODUCTS	C8602090 9475360 9475660	 01/10/07 01/11/07	CALENDAR OFFICE SUPPLIES CALENDAR	(18.30) 20.46 7.42	9.58
2004423	01/24/07	01797	DELL ENTERPRISES	181424	12/29/06	PLAQUE	150.85	150.85

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2004217	01/03/07	02603	DELL MARKETING LP	T30960767	12/14/06	CABLE KIT	210.12	210.12
2004532	01/25/07	06735	DELORES CABRERA	Ref002371379	01/23/07	UB Refund Cst #0000089032	470.06	470.06
2004218	01/03/07	03744	DEPARTMENT OF JUSTICE	603320	12/12/06	FINGERPRINT ANALYSIS SERVICES	160.00	160.00
2004651	01/31/07	03744	DEPARTMENT OF JUSTICE	607487	01/11/07	FINGERPRINT ANALYSIS SERVICES	160.00	160.00
2004276	01/10/07	06496	DICE.COM	351716	12/19/06	JOB POSTINGS	640.00	640.00
2004533	01/25/07	06720	DIGNA CERALDE	Ref002371364	01/23/07	UB Refund Cst #0000087354	75.00	75.00
2004424	01/24/07	01205	DIONEX CORPORATION	416528	12/19/06	TECHNICAL SERVICE AND REPAIR	1,922.00	1,922.00
2004277	01/10/07	03417	DIRECTV	477160351	12/19/06	SATELLITE TV SERVICE	4.99	4.99
2004355	01/17/07	03417	DIRECTV	487273662	01/05/07	SATELLITE TV SERVICE	49.31	49.31
2004652	01/31/07	03417	DIRECTV	495556517	01/19/07	SATELLITE TV SERVICE	4.99	4.99
2004534	01/25/07	06785	DOMINGO BAUTISTA	Ref002371429	01/23/07	UB Refund Cst #0000081558	20.39	20.39
2004356	01/17/07	00352	DREW FORD	D79382	12/13/06	BODY REPAIR	7,333.31	7,333.31
2004535	01/25/07	06801	DUSTIN RUETHER	Ref002371446	01/23/07	UB Refund Cst #0000085183	55.56	55.56
2004536	01/25/07	06754	EAST COUNTY DEVELOPMENT INC	Ref002371398	01/23/07	UB Refund Cst #0000091644	399.90	399.90
2004278	01/10/07	01926	EAST COUNTY URGENT CARE	015563	12/19/06	DMV PHYSICALS	43.00	43.00
2004537	01/25/07	06747	EASTLAKE DESIGN DISTRICT LLC	Ref002371391	01/23/07	UB Refund Cst #0000090469	762.18	762.18
2004538	01/25/07	06699	EASTLAKE III	Ref002371343	01/23/07	UB Refund Cst #0000045965	848.13	848.13
2004425	01/24/07	02447	EDCO DISPOSAL CORPORATION	015557	12/31/06	RECYCLING SERVICES	47.19	47.19
2004653	01/31/07	02447	EDCO DISPOSAL CORPORATION	015615	01/29/07	RECYCLING SERVICES	47.19	47.19
2004279	01/10/07	03261	EDEN SYSTEMS INC	INV0101277 INV0101278	12/12/06 12/12/06	CONSULTING SERVICES CONSULTING SERVICES	150.00 75.00	225.00
2004426	01/24/07	00230	EDP PRODUCTS INC	804828	12/31/06	CARTRIDGE STORAGE/RETRIEVAL	184.40	184.40
2004219	01/03/07	01015	EL DORADO COATINGS INC	53574	12/13/06	SANDBLAST/POWDERCOAT SVCS	275.00	275.00
2004280	01/10/07	06525	ELECTRIC MOTOR SPECIALISTS INC	1613	12/20/06	SPARE PUMP - RUSSELL SQUARE	1,679.82	1,679.82

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2004281	01/10/07	01314	EMED CO INC	67796000	12/12/06	EYEWASH STATION	58.00	58.00
2004539	01/25/07	06731	EMILY BAILIFF	Ref002371375	01/23/07	UB Refund Cst #0000088626	11.38	11.38
2004654	01/31/07	06813	EMPLOYMENT TRAINING	015620	01/17/07	TRAINING SEMINAR	65.00	65.00
2004655	01/31/07	04467	ENGINEERING AND GENERAL	076742	01/18/07	MEETING REGISTRATION	90.00	90.00
2004540	01/25/07	06692	ERNESTO YORBA	Ref002371336	01/23/07	UB Refund Cst #0000038084	66.68	66.68
2004541	01/25/07	06751	EVELYN TUMALAD	Ref002371395	01/23/07	UB Refund Cst #0000090836	21.67	21.67
2004282	01/10/07	02639	EW TRUCK & EQUIPMENT	121106KMF 28493 172047 176413	12/11/06 11/27/06 09/14/06 11/15/06	SUBLET OPACITY TEST VEHICLE REPAIR CREDIT MEMO CREDIT MEMO	990.00 393.12 (67.38) (84.92)	1,230.82
2004427	01/24/07	03757	FANDEL ENTERPRISES	1227A 1227	01/02/07 01/02/07	TELECOMMUNICATIONS MAINT SVCS TELECOMMUNICATIONS CONSULTING SVCS	900.00 870.00	1,770.00
2004656	01/31/07	03421	FEDERAL SIGNAL CORPORATION	70199	01/10/07	LEASE PAYMENT	54,235.47	54,235.47
2004428	01/24/07	00645	FEDEX	860703416	12/29/06	OVERNIGHT PICK-UP & DELIVERY MAIL SVCS	28.77	28.77
2004220	01/03/07	03546	FERGUSON WATERWORKS	0187607 0187606 01873451 0187824	12/12/06 12/12/06 12/21/06 12/13/06	INVENTORY INVENTORY HYDRANT CAPS STEEL ADAPTER FLANGES	4,516.15 4,529.81 1,849.96 107.46	11,003.38
2004283	01/10/07	03546	FERGUSON WATERWORKS	0173503 0187345	09/25/06 12/19/06	TAPPING MACHINE HYDRANT CAPS	4,062.18 2,861.62	6,923.80
2004357	01/17/07	03546	FERGUSON WATERWORKS	0189793	12/27/06	INVENTORY	317.54	317.54
2004204	01/03/07	02470	FIRST BANKCARD	015541 015543 015542	12/08/06 12/08/06 12/08/06	DISTRICT EXPENSES DISTRICT EXPENSES DISTRICT EXPENSES	1,144.82 120.00 26.25	1,291.07
2004657	01/31/07	02470	FIRST BANKCARD	015627 015626	01/30/07 01/31/07	DISTRICT EXPENSES DISTRICT EXPENSES	4,395.25 81.81	4,477.06
2004658	01/31/07	04066	FIRST CHOICE SERVICES-SD	275729 275265	01/11/07 01/10/07	FILTERS & CARTRIDGES COFFEE SUPPLIES	344.37 239.29	583.66
2004358	01/17/07	00035	FISHER SCIENTIFIC	7467700	12/13/06	LABORATORY SUPPLIES	960.75	

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				7499507	12/14/06	LABORATORY SUPPLIES	765.90	1,726.65
2004284	01/10/07	00211	FLEET SUPPLY INC	9982	12/21/06	SUBLET REPAIR, TRANSMISSION	1,898.95	1,898.95
2004429	01/24/07	00211	FLEET SUPPLY INC	9995	12/27/06	SUBLET REPAIR	1,825.20	1,825.20
2004221	01/03/07	03109	FOLEY & LARDNER	27113366	12/08/06	LEGAL SERVICES	929.79	929.79
2004285	01/10/07	03109	FOLEY & LARDNER	27100146 27122769	11/08/06 12/22/06	LEGAL SERVICES LEGAL SERVICES	748.16 268.63	1,016.79
2004430	01/24/07	02028	FT INTERACTIVE DATA CORP	05674126	12/31/06	DIAL-UP SERVICE FOR INVESTMENTS	85.00	85.00
2004431	01/24/07	03094	FULLCOURT PRESS	16112	12/29/06	BILL INSERTS	1,126.51	1,126.51
2004542	01/25/07	06748	FULLER FORD	Ref002371392	01/23/07	UB Refund Cst #0000090494	818.80	818.80
2004222	01/03/07	05626	GAME 7 CONSULTING	1481	01/03/07	CONSULTING SERVICES - IS DEPT	1,800.00	1,800.00
2004286	01/10/07	05626	GAME 7 CONSULTING	1478 1485	12/26/06 01/09/07	CONSULTING SERVICES - IS DEPT CONSULTING SERVICES - IS DEPT	5,698.00 4,530.00	10,228.00
2004359	01/17/07	05626	GAME 7 CONSULTING	1488	01/17/07	CONSULTING SERVICES - IS DEPT	5,272.00	5,272.00
2004432	01/24/07	05626	GAME 7 CONSULTING	1491	01/23/07	CONSULTING SERVICES - IS DEPT	4,388.00	4,388.00
2004659	01/31/07	06291	GARCIA CALDERON & RUIZ	1160	01/17/07	LEGAL SERVICES DECEMBER 2006	53,270.61	53,270.61
2004223	01/03/07	03609	GBA MASTER SERIES INC	605462 605461	11/30/06 11/30/06	SOFTWARE CONSULTING SERVICES SOFTWARE CONSULTING SERVICES	4,000.00 1,500.00	5,500.00
2004543	01/25/07	06796	GENE GARDINER	Ref002371441	01/23/07	UB Refund Cst #0000084450	75.00	75.00
2004224	01/03/07	03537	GHA TECHNOLOGIES INC	405931	12/11/06	WIRELESS HEADSET	245.68	245.68
2004660	01/31/07	03537	GHA TECHNOLOGIES INC	410433	01/10/07	HPC9730A, BLACK TONER	1,072.77	1,072.77
2004287	01/10/07	06276	GIFFORD ENGINEERING INC	50446	12/13/06	TWO-WAY RADIO REPAIR	187.00	187.00
2004433	01/24/07	06276	GIFFORD ENGINEERING INC	50454	01/02/07	TWO-WAY RADIO REPAIR	143.00	143.00
2004661	01/31/07	06276	GIFFORD ENGINEERING INC	50445 3203	01/08/07 01/11/07	TWO-WAY RADIO REPAIR TWO-WAY RADIO REPAIRS	256.81 143.00	399.81
2004434	01/24/07	03773	GTC SYSTEMS INC	25958	12/29/06	TECHNICAL SUPPORT FOR CITRIX	1,237.38	1,237.38

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2004544	01/25/07	06781	GUADALUPE LAGUNA-JOHNSON	Ref002371425	01/23/07	UB Refund Cst #0000081187	152.99	152.99
2004662	01/31/07	06522	GUZMAN, VERONICA	015621	01/29/07	TUITION REIMBURSEMENT	195.00	195.00
2004225	01/03/07	00174	HACH COMPANY	4965542	12/13/06	LABORATORY SUPPLIES	740.66	
				4966068	12/13/06	AMMONIA TEST KIT	479.25	1,219.91
2004360	01/17/07	00174	HACH COMPANY	4980611	12/28/06	CHLORINE & AMMONIA ANALYZER	195.02	195.02
2004435	01/24/07	00174	HACH COMPANY	WI213225	12/14/06	REPAIR OF COLORIMETER & 2 AUTOBURETTS	467.85	
				WI213371	12/15/06	REPAIR OF COLORIMETER & 2 AUTOBURETTS	382.26	
				WI213224	12/14/06	REPAIR OF COLORIMETER & 2 AUTOBURETTS	251.05	1,101.16
2004545	01/25/07	06728	HANNA MARIA	Ref002371372	01/23/07	UB Refund Cst #0000088540	684.62	684.62
2004546	01/25/07	06788	HANNAH MARIA CONSTRUCTION	Ref002371432	01/23/07	UB Refund Cst #0000082210	212.92	212.92
2004436	01/24/07	02350	HARPER & ASSOCIATES	ENG3494	01/02/07	RWCWRF - R.O. BLDG REMODEL	400.00	400.00
2004226	01/03/07	06650	HEARTHSTONE AT OTAY RANCH	015547	01/02/07	REFUND OVERPYMT ON ACCT #900-0445-01	21.20	21.20
2004361	01/17/07	04472	HECTOR I MARES-COSSIO	21	12/01/06	CONSULTANT CONTRACT	3,000.00	3,000.00
2004663	01/31/07	00713	HEWLETT-PACKARD COMPANY	41622195	01/09/07	PRINTER	1,219.73	1,219.73
2004437	01/24/07	06663	HIGHLAND RANCH COMMUNITY	APN50571103	01/18/07	EASEMENT AND LICENSE FEES	10,000.00	10,000.00
2004664	01/31/07	06809	HILDING LAW FIRM	16497	11/30/06	LEGAL SERVICES OCTOBER 2006	910.00	910.00
2004438	01/24/07	01799	HIRSCH & COMPANY	6101513	11/22/06	I-905 UTILITY RELOCATION DESIGN SERVICES	700.00	700.00
2004288	01/10/07	01109	HOME DEPOT CREDIT SERVICES	5198150	12/22/06	PAINT AND SUPPLIES	451.47	
				35657681	11/29/06	FLUOR 32W LAMPS	114.43	
				1167086	01/05/07	PRIMER FOR MILLAER RANCH (#1090-1)	90.51	656.41
2004439	01/24/07	01109	HOME DEPOT CREDIT SERVICES	9193670	01/17/07	ALUMINUM MINI BLIND & LAMINATE	80.26	80.26
2004665	01/31/07	05834	HUYNH, TRANH	015607	01/23/07	CONF TRAVEL EXPENSES	701.08	701.08
2004440	01/24/07	03615	I.M.P.A.C. GOVERNMENT SERVICES	015597	12/22/06	DISTRICT EXPENSES	2,652.43	
				015592	01/19/07	DISTRICT EXPENSES	721.25	3,373.68
2004666	01/31/07	03615	I.M.P.A.C. GOVERNMENT SERVICES	015611	12/22/06	DISTRICT EXPENSES	6,289.98	6,289.98
2004441	01/24/07	02203	IKON OFFICE SOLUTIONS	2174993A	12/20/06	RECORDS MGMNT SUPPORT	7,400.00	7,400.00

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2004442	01/24/07	03280	INFRASTRUCTURE ENGINEERING	2404 2412	12/31/06 12/31/06	PROF DESIGN & ENV SVCS FOR 36" PIPELINE 640-1 RESERVOIR CONSULTING SVCS	19,835.29 1,004.00	20,839.29
2004443	01/24/07	01982	INTEGRATED OFFICE SYSTEMS	1360	12/20/06	ANNUAL FACSIMILE MAINTENANCE	479.00	479.00
2004227	01/03/07	04197	INTEGRITY STAFFING INC	3380 3362	01/03/07 01/02/07	TEMPORARY SERVICES - HR DEPT TEMPORARY SERVICES - HR DEPT	1,943.78 1,908.00	3,851.78
2004289	01/10/07	04197	INTEGRITY STAFFING INC	3408 3391	01/06/07 01/01/07	TEMPORARY SERVICES - HR DEPT TEMPORARY SERVICES - HR DEPT	1,526.40 1,216.35	2,742.75
2004444	01/24/07	04197	INTEGRITY STAFFING INC	04197	01/16/07	TEMPORARY SERVICES - HR DEPT	1,693.35	1,693.35
2004667	01/31/07	04197	INTEGRITY STAFFING INC	3438	01/22/07	HR CONSULTANT - TEMP	1,526.40	1,526.40
2004445	01/24/07	02372	INTERIOR PLANT SERVICE INC	23337	12/31/06	PLANT LEASING SERVICE	181.00	181.00
2004290	01/10/07	02267	INTERNAL REVENUE SERVICE	Ben2370904	01/09/07	PAYROLL DEDUCTION	50.00	50.00
2004291	01/10/07	04077	INTERNAL REVENUE SERVICE	Ben2370914	01/09/07	PAYROLL DEDUCTION	64.00	64.00
2004389	01/24/07	02267	INTERNAL REVENUE SERVICE	Ben2371253	01/23/07	PAYROLL DEDUCTION	50.00	50.00
2004390	01/24/07	04077	INTERNAL REVENUE SERVICE	Ben2371263	01/23/07	PAYROLL DEDUCTION	64.00	64.00
2004547	01/25/07	06761	IRAIS YU	Ref002371405	01/23/07	UB Refund Cst #0000069366	89.07	89.07
2004446	01/24/07	01591	IRON MOUNTAIN RECORDS	GF94865 GF94864	12/31/06 12/31/06	OFFSITE RECORDS STORAGE OFFSITE RECORDS STORAGE	1,237.28 0.61	1,237.89
2004548	01/25/07	06794	ITEHAL BAHOR	Ref002371439	01/23/07	UB Refund Cst #0000083872	41.38	41.38
2004549	01/25/07	06741	JABBAR NETTLES	Ref002371385	01/23/07	UB Refund Cst #0000089790	57.92	57.92
2004550	01/25/07	06779	JACOB R MORGAN	Ref002371423	01/23/07	UB Refund Cst #0000080796	20.22	20.22
2004228	01/03/07	05836	JACOBS INC	W9X9540110	11/27/06	450-1 RESV & 680-1 PS PROJECT	46,347.16	46,347.16
2004447	01/24/07	05836	JACOBS INC	W9X9540111	12/20/06	450-1 RESV & 680-1 PS PROJECT	42,854.80	42,854.80
2004551	01/25/07	06757	JAMES NEAL	Ref002371401	01/23/07	UB Refund Cst #0000059385	27.00	27.00
2004448	01/24/07	03077	JANI KING OF CALIFORNIA INC	SDO01070417 SDO01070426	01/01/07 01/01/07	JANITORIAL SERVICES OFF-SITE JANITORIAL SERVICES	3,905.00 990.00	4,895.00
2004552	01/25/07	06717	JEFF WAGNER	Ref002371361	01/23/07	UB Refund Cst #0000086992	14.21	14.21

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2004553	01/25/07	06722	JEFFREY LACANGAN	Ref002371366	01/23/07	UB Refund Cst #0000087865	65.70	65.70
2004554	01/25/07	06769	JESSIE MONTERROSA	Ref002371413	01/23/07	UB Refund Cst #0000074456	31.96	31.96
2004555	01/25/07	06806	JESUS ROMERO	Ref002371451	01/23/07	UB Refund Cst #0000085745	137.23	137.23
2004668	01/31/07	01010	JOBS AVAILABLE INC	703072	01/23/07	JOB POSTINGS	1,960.00	1,960.00
2004556	01/25/07	06787	JOEY FREEMAN	Ref002371431	01/23/07	UB Refund Cst #0000082200	75.00	75.00
2004449	01/24/07	06282	JOHNSON & ASSOCIATES LLC	11511	12/31/06	COMPENSATION STUDY	6,520.00	6,520.00
2004292	01/10/07	03172	JONES & STOKES	0038557	12/15/06	HABITAT MANAGEMENT ENVIRON SERVICES	15,197.56	15,197.56
2004293	01/10/07	03172	JONES & STOKES	0038548 0038547	12/15/06 12/15/06	ON-CALL ENVIRONMENTAL SVCS ON-CALL ENVIRONMENTAL SVCS	1,860.68 451.72	2,312.40
2004294	01/10/07	03172	JONES & STOKES	0038555	12/15/06	REVEGETATION MONITORING & MAINT SVCS	442.65	442.65
2004557	01/25/07	06667	JORGE RUJANA	Ref002371311	01/23/07	UB Refund Cst #0000001322	100.00	100.00
2004558	01/25/07	06804	JOSE CASORA JR	Ref002371449	01/23/07	UB Refund Cst #0000085532	35.87	35.87
2004559	01/25/07	06760	JOSE ENRIQUEZ	Ref002371404	01/23/07	UB Refund Cst #0000068194	34.39	34.39
2004560	01/25/07	06791	JOSEFINA NUNEZ	Ref002371435	01/23/07	UB Refund Cst #0000083348	75.00	75.00
2004295	01/10/07	02449	JOSEPH G POLLARD CO INC	I186029IN	12/06/06	DE-CHLOR DIFFUSERS / HYDRANT RINGS	2,183.39	2,183.39
2004561	01/25/07	06678	JUDY J COLE	Ref002371322	01/23/07	UB Refund Cst #0000019202	23.96	23.96
2004562	01/25/07	06793	JULIA CAMPANA	Ref002371437	01/23/07	UB Refund Cst #0000083596	75.00	75.00
2004296	01/10/07	06653	JULIE FEHOKO	015565	01/05/07	REFUND ACCT CREDIT ON 250-4684-79	345.91	345.91
2004563	01/25/07	06797	KAREN DAWSON	Ref002371442	01/23/07	UB Refund Cst #0000084822	8.09	8.09
2004564	01/25/07	06689	KATHLEEN BUSTAMANTE	Ref002371333	01/23/07	UB Refund Cst #0000035923	51.09	51.09
2004565	01/25/07	06807	KATHLEEN MCBEATH	Ref002371452	01/23/07	UB Refund Cst #0000085831	24.87	24.87
2004566	01/25/07	06706	KELLYE L HATFIELD	Ref002371350	01/23/07	UB Refund Cst #0000056501	89.02	89.02
2004567	01/25/07	06700	KENDRA CONLIN	Ref002371344	01/23/07	UB Refund Cst #0000046179	18.39	18.39

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2004450	01/24/07	06499	KENNETH S. COHEN	106309	01/17/07	LITIGATION RETENTION	2,000.00	2,000.00
2004568	01/25/07	06739	KENNETH WIELAND	Ref002371383	01/23/07	UB Refund Cst #0000089494	39.24	39.24
2004569	01/25/07	06798	KIM PASSIGLIA	Ref002371443	01/23/07	UB Refund Cst #0000085016	72.07	72.07
2004297	01/10/07	04996	KNOX ATTORNEY SERVICE INC	215072	12/15/06	DELIVERY OF BOARD & COMMITTEE PACKETS	27.50	
				215570	12/19/06	DELIVERY OF BOARD & COMMITTEE PACKETS	27.50	
				215572	12/19/06	DELIVERY OF BOARD & COMMITTEE PACKETS	27.50	
				215571	12/19/06	DELIVERY OF BOARD & COMMITTEE PACKETS	27.50	
				216149	12/21/06	DELIVERY OF BOARD & COMMITTEE PACKETS	27.50	137.50
2004451	01/24/07	04996	KNOX ATTORNEY SERVICE INC	217813	01/03/07	DELIVERY OF BOARD & COMMITTEE PACKETS	27.50	
				217816	01/03/07	DELIVERY OF BOARD & COMMITTEE PACKETS	27.50	
				218714	01/03/07	DELIVERY OF BOARD & COMMITTEE PACKETS	27.50	
				217815	01/03/07	DELIVERY OF BOARD & COMMITTEE PACKETS	27.50	110.00
2004298	01/10/07	01859	LA PRENSA SAN DIEGO	20891	12/18/06	JOB POSTINGS	280.44	280.44
2004669	01/31/07	01859	LA PRENSA SAN DIEGO	20783	01/08/07	JOB POSTINGS	229.14	229.14
2004229	01/03/07	06497	LAKESIDE LAND COMPANY	184656	12/13/06	ASPHALT	160.00	160.00
2004570	01/25/07	06764	LAURIE FIGUEROA	Ref002371408	01/23/07	UB Refund Cst #0000071024	11.65	11.65
2004571	01/25/07	06749	LAURY HONG	Ref002371393	01/23/07	UB Refund Cst #0000090523	20.67	20.67
2004572	01/25/07	06768	LETHA MORGAN	Ref002371412	01/23/07	UB Refund Cst #0000073461	38.26	38.26
2004573	01/25/07	06752	LEVI ORTIZ	Ref002371396	01/23/07	UB Refund Cst #0000091156	117.70	117.70
2004299	01/10/07	00627	LEWIS & LEWIS ENTERPRISES	956082000	12/05/06	CALCULATOR AND TAPE	64.60	64.60
2004452	01/24/07	00627	LEWIS & LEWIS ENTERPRISES	956081000	12/05/06	SURVEYOR SUPPLIES	102.74	102.74
2004362	01/17/07	06273	LIEBERT CASSIDY WHITMORE	72528	11/30/06	LABOR RELATIONS CONSULTING SERVICES	2,322.54	2,322.54
2004453	01/24/07	06273	LIEBERT CASSIDY WHITMORE	72927	12/31/06	LABOR RELATIONS CONSULTING SERVICES	2,000.00	2,000.00
2004300	01/10/07	06654	LISA PARKER	015566	01/05/07	REFUND FOR ACCT #622-4519-38	75.00	75.00
2004301	01/10/07	03784	LIVESCAN SAN DIEGO	06100683	12/18/06	FINGERPRINTING SERVICES	160.00	160.00
2004454	01/24/07	05220	LOGICALIS INTEGRATION SOLUTION	S712703	12/31/06	DATA CENTER UPGRADE	1,690.00	1,690.00
2004574	01/25/07	06778	LOUISE MAHER	Ref002371422	01/23/07	UB Refund Cst #0000080489	6.67	6.67

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Check #	Date	Vendor	Vendor name	Invoice	Inv Date	Description	Amount Paid	Check Total
2004575	01/25/07	06780	LYDIA WALTERS	Ref002371424	01/23/07	UB Refund Cst #0000080885	24.26	24.26
2004576	01/25/07	06774	LYNETTE SCOTT	Ref002371418	01/23/07	UB Refund Cst #0000078886	75.00	75.00
2004363	01/17/07	00628	MANHATTAN NAT'L LIFE INS CO	015588	01/17/07	VOLUNTARY LIFE INSURANCE	433.80	433.80
2004455	01/24/07	06665	MANUEL CHAVEZ WHOLESALE	5884	01/23/07	EMPLOYEE RECOGNITION - CENTERPIECES	489.10	489.10
2004577	01/25/07	06790	MARIA CASTRO	Ref002371434	01/23/07	UB Refund Cst #0000083344	45.20	45.20
2004578	01/25/07	06765	MARIA G LOPEZ	Ref002371409	01/23/07	UB Refund Cst #0000071509	75.00	75.00
2004579	01/25/07	06732	MARIA ROCIO BENITEZ	Ref002371376	01/23/07	UB Refund Cst #0000088796	34.19	34.19
2004580	01/25/07	06770	MARILUNA GOMEZ	Ref002371414	01/23/07	UB Refund Cst #0000074461	281.44	281.44
2004581	01/25/07	06733	MARIYA BAY	Ref002371377	01/23/07	UB Refund Cst #0000088805	75.00	75.00
2004582	01/25/07	06753	MARK HODGES CONSULTING	Ref002371397	01/23/07	UB Refund Cst #0000091338	597.83	597.83
2004583	01/25/07	06688	MARSHA BROWN	Ref002371332	01/23/07	UB Refund Cst #0000034839	199.94	199.94
2004456	01/24/07	02902	MARSTON & MARSTON INC	1006 704956	01/01/07 01/01/07	PUBLIC RELATIONS SERVICES PUBLIC RELATIONS & DESIGN SVCS	3,510.00 1,500.00	5,010.00
2004584	01/25/07	06766	MARVILA PLAZA	Ref002371410	01/23/07	UB Refund Cst #0000072693	11.81	11.81
2004230	01/03/07	05329	MASTER METER INC	0117239IN	12/13/06	COMPOUND METERS	11,702.30	11,702.30
2004585	01/25/07	06682	MAXIM CHEN	Ref002371326	01/23/07	UB Refund Cst #0000024239	93.12	93.12
2004302	01/10/07	01183	MCMaster-CARR SUPPLY CO	55413052	12/05/06	REPAIR PARTS	23.44	23.44
2004670	01/31/07	01183	MCMaster-CARR SUPPLY CO	56997173	01/08/07	HOG RINGS & PLIERS	117.11	117.11
2004303	01/10/07	03764	MCPHILLIPS, KEVIN P.	015559	01/03/07	TUITION REIMBURSEMENT	1,200.00	1,200.00
2004586	01/25/07	06734	MEGAN HOLSTE	Ref002371378	01/23/07	UB Refund Cst #0000088832	14.27	14.27
2004587	01/25/07	06674	MICHAEL DEROUIN	Ref002371318	01/23/07	UB Refund Cst #0000011901	44.85	44.85
2004588	01/25/07	06724	MICHEALS MICHAEL	Ref002371368	01/23/07	UB Refund Cst #0000088145	140.78	140.78
2004589	01/25/07	06738	MICHELLE ARROLADO	Ref002371382	01/23/07	UB Refund Cst #0000089417	58.35	58.35

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2004590	01/25/07	06792	MICHELLE WALSH	Ref002371436	01/23/07	UB Refund Cst #0000083438	31.42	31.42
2004231	01/03/07	00237	MISSION JANITORIAL SUPPLIES	2314300	12/14/06	FLOOR BRUSH	189.53	189.53
2004364	01/17/07	01363	MISSION LINEN & UNIFORM	18040330	12/01/06	UNIFORMS,TOWELS/SUPPLIES	563.02	
				18038611	12/01/06	UNIFORMS, TOWELS/SUPPLIES	561.66	
				18039480	12/01/06	UNIFORMS,TOWELS/SUPPLIES	555.39	
				18041198	12/01/06	UNIFORMS,TOWELS/SUPPLIES	533.86	
				S56997	12/01/06	UNIFORM REPLACEMENT	204.00	
				18041196	12/01/06	UNIFORMS,MATS,TOWELS/SUPPLIES	195.71	
				18039479	12/01/06	TOWELS/SUPPLIES	46.61	
				18040329	12/01/06	TOWELS/SUPPLIES	46.61	
				S56951	12/01/06	UNIFORM REPLACEMENT	30.75	
				S56996	12/01/06	UNIFORM REPLACEMENT	18.00	
				S56964	12/01/06	UNIFORM REPLACEMENT	63.95	
				S56952	12/01/06	UNIFORM REPLACEMENT	58.03	
				S56963	12/01/06	UNIFORM REPLACEMENT	58.03	
				S41635	12/01/06	UNIFORM REPLACEMENT	48.65	
				18041197	12/01/06	TOWELS/SUPPLIES	47.80	
				18038610	12/01/06	TOWELS/SUPPLIES	46.61	
				18040331	12/01/06	UNIFORMS,MATS,TOWELS/SUPPLIES	130.52	
				18041199	12/01/06	MATS,TOWELS/SUPPLIES	130.52	
				S56962	12/01/06	UNIFORM REPLACEMENT	116.07	
				S56961	12/01/06	UNIFORM REPLACEMENT	95.45	
				S56029	12/01/06	UNIFORM REPLACEMENT	85.95	
				S56953	12/01/06	UNIFORM REPLACEMENT	84.00	
				18040328	12/01/06	UNIFORMS,MATS,TOWELS/SUPPLIES	194.25	
				18038609	12/01/06	UNIFORMS,MATS,TOWEL/SUPPLIES	192.61	
				18039478	12/01/06	UNIFORMS,MATS,TOWELS/SUPPLIES	192.61	
				S56981	12/01/06	UNIFORM REPLACEMENT	132.00	
				18038612	12/01/06	MATS,TOWELS/SUPPLIES	130.52	
				18039481	12/01/06	MATS,TOWELS/SUPPLIES	130.52	4,693.70
2004365	01/17/07	03393	MOBILE MINI LLC - CA	90471050	12/24/06	RENTAL 40' STORAGE CONTAINERS	164.90	164.90
2004457	01/24/07	03393	MOBILE MINI LLC - CA	90473284	01/01/07	RENTAL 40' STORAGE CONTAINERS	170.88	170.88
2004671	01/31/07	03401	MODULAR MERCHANTS INC	1702	01/11/07	WORKSTATION	6,772.62	
				1703	01/11/07	WORKSTATION	2,754.26	9,526.88
2004591	01/25/07	06693	MOHAMMAD H ATTIEYEH	Ref002371337	01/23/07	UB Refund Cst #0000040113	29.03	29.03
2004458	01/24/07	01823	MONRO, THOMAS K.	00829009226	01/12/07	SAFETY BOOTS	150.00	150.00
2004459	01/24/07	06659	MONSTERTRAK	2131143	12/01/06	JOB POSTING	1,500.00	1,500.00

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2004366	01/17/07	02503	MORGAN COMPANY	13545	12/19/06	CONNECTORS & CABLE	496.45	496.45
2004367	01/17/07	06534	MOTION COMPUTING	DOMINV000003746	12/27/06	DISPLAY RETROFIT ON TABLET PC'S	10,000.17	10,000.17
2004460	01/24/07	03623	MWH AMERICAS INC	1081445	12/31/06	450-1 RESERVOIR & 680-1 PUMP STATION	6,574.69	6,574.69
2004304	01/10/07	02037	MWH LABORATORIES	188040LI	11/16/06	ANALYSES FOR REGULATORY COMPL	1,016.00	1,016.00
2004592	01/25/07	06786	NAOMI CHAVEZ	Ref002371430	01/23/07	UB Refund Cst #0000081863	129.67	129.67
2004233	01/03/07	04676	NAPA AUTO PARTS	052939	11/20/06	REPAIR PARTS	50.99	
				055215	12/11/06	REPAIR PARTS	50.51	
				053997	11/29/06	REPAIR PARTS	47.60	
				054039	11/30/06	REPAIR PARTS	44.55	
				054030	11/30/06	REPAIR PARTS	43.08	
				054484	12/04/06	REPAIR PARTS	41.23	
				048593	10/17/06	REPAIR PARTS	24.64	
				055767	12/14/06	REPAIR PARTS	19.82	
				052995	11/21/06	REPAIR PARTS	19.14	
				054895	12/07/06	REPAIR PARTS	16.65	
				054401	12/04/06	REPAIR PARTS	141.44	
				50423	10/31/06	CREDIT MEMO	(18.06)	
				050423	10/31/06	CREDIT MEMO	(18.06)	
				49323	10/23/06	DISC BRAKE PADS	(24.34)	
				054391	12/04/06	REPAIR PARTS	31.89	
				054865	12/07/06	REPAIR PART	27.51	
				50420	10/31/06	CREDIT MEMO	(36.61)	
				050420	10/31/06	CREDIT MEMO	(36.61)	
				50425	10/31/06	CREDIT MEMO	(37.17)	
				050425	10/31/06	CREDIT MEMO	(37.17)	
				054536	12/05/06	REPAIR PARTS	16.13	
				054862	12/07/06	REPAIR PART	15.42	
				055133	12/09/06	REPAIR PARTS	228.62	
				054259	12/01/06	REPAIR PARTS	159.19	
				053582	11/27/06	REPAIR PARTS	137.92	
				053119	11/21/06	REPAIR PARTS	100.40	
				049323	10/23/06	CREDIT MEMO	(24.34)	
				048659	10/18/06	CREDIT MEMO	(24.64)	
				054553	12/05/06	REPAIR PARTS	53.50	
				055386	12/12/06	TOOL	440.70	
				053631	11/27/06	REPAIR PARTS	350.26	
				054014	11/30/06	REPAIR PARTS	308.27	
				50421	10/31/06	CREDIT MEMO	(48.55)	
				050421	10/31/06	CREDIT MEMO	(48.55)	
				055766	12/14/06	REPAIR PARTS	13.88	
				052937	11/20/06	REPAIR PARTS	11.62	

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				054957	12/08/06	REPAIR PARTS	10.52	
				054956	12/08/06	REPAIR PARTS	8.77	
				053532	11/27/06	REPAIR PARTS	68.96	
				055505	12/12/06	REPAIR PARTS	64.59	
				054108	11/30/06	REPAIR PART	6.26	
				055182	12/09/06	REPAIR PARTS	5.48	
				055031	12/08/06	REPAIR PARTS	3.69	
				055786	12/14/06	REPAIR PARTS	3.35	
				053646	11/27/06	REPAIR PARTS	243.53	
				053118	11/21/06	REPAIR PARTS	14.78	
				054489	12/04/06	CREDIT MEMO	(1.17)	
				50424	10/31/06	CREDIT MEMO	(5.80)	
				050424	10/31/06	CREDIT MEMO	(5.80)	
				053688	11/27/06	CREDIT MEMO	(6.34)	
				053749	11/28/06	REPAIR PARTS	7.05	
				053032	11/21/06	REPAIR PARTS	6.34	2,465.07
2004305	01/10/07	04676	NAPA AUTO PARTS	50421A	10/31/06	CREDIT MEMO	48.55	
				50425A	10/31/06	CREDIT MEMO	37.17	
				50420A	10/31/06	CREDIT MEMO	36.61	
				49323A	10/23/06	CREDIT MEMO	24.34	
				50423A	10/31/06	CREDIT MEMO	18.06	
				50424A	10/31/06	CREDIT MEMO	5.80	170.53
2004593	01/25/07	06795	NATHAN LUCE	Ref002371440	01/23/07	UB Refund Cst #0000084215	8.17	8.17
2004306	01/10/07	03523	NATIONAL DEFERRED COMPENSATION	Ben2370900	01/09/07	DEFERRED COMP PLAN	9,939.66	9,939.66
2004391	01/24/07	03523	NATIONAL DEFERRED COMPENSATION	Ben2371249	01/23/07	DEFERRED COMP PLAN	9,916.02	9,916.02
2004368	01/17/07	03733	NEC UNIFIED SOLUTIONS INC	VSH10231063	12/23/06	LABOR FOR PHONES SERVICES	113.00	113.00
2004461	01/24/07	03487	NETWORK INSIGHT	NISD200701993CN		STAFF SUPPORT	(16,940.00)	
				NISD200701993	01/01/07	STAFF SUPPORT	16,940.00	
				NISD200601969	12/01/06	NETWORK MONITORING SERVICES	15,400.00	
				NISD200701997	01/01/07	NETWORK MONITORING SERVICES	2,970.00	
				NISD200701988	12/31/06	NETWORK MONITORING SERVICES	150.00	18,520.00
2004594	01/25/07	06803	NEVA COWAN	Ref002371448	01/23/07	UB Refund Cst #0000085484	9.83	9.83
2004369	01/17/07	00745	NEWARK INONE	13633423	12/22/06	CABLE CONNECTORS AND PARTS	255.52	255.52
2004234	01/03/07	03571	NEXTLEVEL INTERNET	11756	12/14/06	INTERNET WEB HOSTING	357.00	357.00
2004595	01/25/07	06802	NICOLE PEDERSON	Ref002371447	01/23/07	UB Refund Cst #0000085238	75.00	75.00

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2004596	01/25/07	06727	OAK TREE REALTY	Ref002371371	01/23/07	UB Refund Cst #0000088528	86.86	86.86
2004307	01/10/07	03299	OCB REPROGRAPHICS	4555100	12/19/06	REPROGRAPHICS SUPPLIES	571.47	
				4555773	12/19/06	PRINTING SERVICES	301.40	
				4060744	03/16/06	REPROGRAPHICS SERVICES	158.97	
				4555762	12/19/06	PRINTING SERVICES	10.78	
				4555765	12/19/06	PRINTING SERVICES	842.60	1,885.22
2004370	01/17/07	03299	OCB REPROGRAPHICS	4478768	10/31/06	REPROGRAPHICS SERVICES	340.90	
				4464733	10/24/06	REPROGRAPHICS SERVICES	311.15	
				4422555	09/28/06	REPROGRAPHICS SERVICES	279.34	
				4478391	10/31/06	REPROGRAPHICS SERVICES	166.80	
				4478383	10/31/06	REPROGRAPHICS SERVICES	121.70	
				4478378	10/31/06	REPROGRAPHICS SERVICES	40.55	
				4478386	10/31/06	REPROGRAPHICS SERVICES	10.78	
				4500170	11/14/06	REPROGRAPHICS SERVICES	10.78	1,282.00
2004462	01/24/07	03299	OCB REPROGRAPHICS	4425373	09/29/06	COPYING & PRINTING FOR 640-1&2 RES	6,968.31	
				4500185	11/14/06	COPYING & PRINTING FOR 640-1&2 RES	799.42	
				4478758	10/31/06	COPYING & PRINTING FOR 640-1&2 RES	558.93	
				4569950	12/29/06	PRINTING SERVICES	102.74	
				4550704	12/15/06	PRINTING SERVICES	26.94	
				4569941	12/29/06	PRINTING SERVICES	10.78	8,467.12
2004672	01/31/07	03299	OCB REPROGRAPHICS	4582271	01/10/07	PRINTING SERVICES	185.30	185.30
2004235	01/03/07	00510	OFFICE DEPOT INC	367081534001	12/20/06	KEYBOARDS	727.26	
				366766822001	12/13/06	WAREHOUSE BATTERIES	305.34	
				366281972001	12/13/06	HEADSETS	162.25	
				366283369001	12/13/06	OFFICE SUPPLY	102.86	
				368111863001	12/20/06	OFFICE SUPPLIES	71.74	
				366715625001	12/13/06	OFFICE SUPPLIES	47.03	
				366772951001	12/13/06	OFFICE SUPPLY	8.33	1,424.81
2004308	01/10/07	00510	OFFICE DEPOT INC	367593744001	12/20/06	OFFICE SUPPLIES	43.15	
				366888631001	12/13/06	MICROWAVE OVEN	116.36	159.51
2004673	01/31/07	00510	OFFICE DEPOT INC	370361389001	01/10/07	ENVELOPES	147.32	
				369862350001	01/10/07	OFFICE SUPPLIES	65.85	
				370360889001	01/10/07	OFFICE SUPPLIES	22.29	235.46
2004309	01/10/07	01837	OFFICE TEAM	17509080	12/18/06	TEMPORARY SERVICES - METER DEPT	627.00	
				17563053	12/25/06	TEMPORARY SERVICES - METER DEPT	551.76	
				17563046	12/25/06	TEMPORARY SERVICES - METER DEPT	451.44	1,630.20
2004463	01/24/07	01837	OFFICE TEAM	17714651	01/15/07	TEMPORARY SERVICES - METER DEPT	764.94	

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				17654805	01/08/07	TEMPORARY SERVICES - METER DEPT	326.04	
				17654806	01/08/07	TEMPORARY SERVICES - METER DEPT	75.24	
				17714652	01/15/07	TEMPORARY SERVICES - METER DEPT	37.62	1,203.84
2004371	01/17/07	02084	OLLI BROS	015584	12/05/06	UNIFORM APPAREL	852.60	852.60
2004236	01/03/07	02721	ORTIZ CORPORATION	19	12/11/06	30" RECYCLED PL CONSTRUCTION CONTRACT	279,577.23	279,577.23
2004464	01/24/07	02334	OTAY LANDFILL	004222	12/31/06	WASTE DISPOSAL SERVICES	1,064.72	1,064.72
2004237	01/03/07	06649	OTAY MESA PROPERTY LP	015546	01/02/07	REFUND AV CHG ON 648-080-19-00	2,236.50	2,236.50
2004597	01/25/07	06725	OTAY RIVER CONSTRUCTORS	Ref002371369	01/23/07	UB Refund Cst #0000088202	5,455.54	5,455.54
2004310	01/10/07	03101	OTAY WATER DISTRICT	Ben2370902	01/09/07	PAYROLL DEDUCTION - ASSN DUES	770.00	770.00
2004392	01/24/07	03101	OTAY WATER DISTRICT	Ben2371251	01/23/07	PAYROLL DEDUCTION - ASSN DUES	770.00	770.00
2004598	01/25/07	06666	OTTO GRAHAM	Ref002371310	01/23/07	UB Refund Cst #0000000966	5.13	5.13
2004311	01/10/07	04463	PACIFIC GREEN LANDSCAPE INC	0041684IN	12/15/06	LANDSCAPING SERVICES	7,850.00	7,850.00
2004372	01/17/07	04463	PACIFIC GREEN LANDSCAPE INC	0041916IN	12/27/06	LANDSCAPE EASEMENT CLEARING	1,540.00	1,540.00
2004674	01/31/07	04463	PACIFIC GREEN LANDSCAPE INC	0041818IN	12/15/06	REPAIR VALVE	96.15	96.15
2004599	01/25/07	06719	PATRICK HOWE	Ref002371363	01/23/07	UB Refund Cst #0000087249	75.00	75.00
2004675	01/31/07	05497	PAYPAL INC	4205350	12/31/06	ON-LINE PAYMENT SERVICES	339.80	339.80
2004373	01/17/07	03308	PBS&J	03115038	12/22/06	OWD WASTE DISCHARGE PERMIT REV	4,563.50	4,563.50
2004676	01/31/07	00227	PELL MELL SUPPLY	43564800	01/08/07	BOLTS	109.00	109.00
2004677	01/31/07	03790	PENHALL COMPANY	4973	01/05/07	FLAT SAW CUTTING SERVICES	185.00	185.00
2004312	01/10/07	00593	PEPPER OIL COMPANY INC	600535	12/07/06	DIESEL FUEL	6,988.33	
				600500	12/04/06	DIESEL FUEL	5,987.98	
				600311	11/28/06	DIESEL FUEL	4,494.18	17,470.49
2004678	01/31/07	00593	PEPPER OIL COMPANY INC	600765	01/08/07	DIESEL FUEL	13,142.90	13,142.90
2004238	01/03/07	03199	PERFORMANCE SPECIALTIES	19825	12/05/06	ANNUAL SMOG TEST	50.00	
				19821	12/05/06	ANNUAL SMOG TEST	50.00	
				19812	12/04/06	ANNUAL SMOG TEST	50.00	
				19808	12/04/06	ANNUAL SMOG TEST	50.00	

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				19799	12/01/06	ANNUAL SMOG TEST	50.00	
				19795	12/01/06	ANNUAL SMOG TEST	50.00	
				19773	11/29/06	ANNUAL SMOG TEST	50.00	
				19760	11/28/06	ANNUAL SMOG TEST	50.00	
				19754	11/28/06	ANNUAL SMOG TEST	50.00	
				19748	11/27/06	ANNUAL SMOG TEST	50.00	
				19747	11/27/06	ANNUAL SMOG TEST	50.00	
				19836	12/07/06	ANNUAL SMOG TEST	50.00	
				19835	12/07/06	ANNUAL SMOG TEST	50.00	
				19834	12/07/06	ANNUAL SMOG TEST	50.00	
				19859	12/11/06	ANNUAL SMOG TEST	50.00	
				19849	12/08/06	ANNUAL SMOG TEST	50.00	
				19781	11/30/06	ANNUAL SMOG TEST	50.00	850.00
2004313	01/10/07	00137	PETTY CASH CUSTODIAN	015582	01/09/07	PETTY CASH REIMBURSEMENT	374.70	374.70
2004393	01/24/07	00137	PETTY CASH CUSTODIAN	015605	01/23/07	PETTY CASH REIMBURSEMENT	693.73	693.73
2004679	01/31/07	03617	PILLSBURY WINTHROP	7299964	01/17/07	LEGAL SERVICES DECEMBER 2006	1,611.52	1,611.52
2004374	01/17/07	02786	PIONEER AMERICAS LLC	5538772772	12/27/06	CHLORINE	2,187.55	2,187.55
2004600	01/25/07	06777	POINTE GOSNELL BUILDERS	Ref002371421	01/23/07	UB Refund Cst #0000080465	447.80	447.80
2004680	01/31/07	03242	POLYDYNE INC	325318	01/05/07	C-2005 POLYMER	5,894.36	5,894.36
2004314	01/10/07	00622	PRACTITIONERS PUBLISHING CO	9322377	07/05/06	GASB MATERIAL ON CD-ROM	853.93	853.93
2004239	01/03/07	05499	PRAXAIR DISTRIBUTION INC	24613329	11/20/06	WELDING SUPPLIES & EQUIPMENT	364.90	364.90
2004315	01/10/07	05499	PRAXAIR DISTRIBUTION INC	24859562	12/20/06	WELDING SUPPLIES & EQUIPMENT	364.90	364.90
2004681	01/31/07	02976	PRE-PAID LEGAL SERVICES INC	015617	12/27/06	PRE-PAID LEGAL SERVICES	115.60	
				015618	01/25/07	PRE-PAID LEGAL SERVICES	89.70	205.30
2004601	01/25/07	06709	PROCTOR VALLEY WEST PARTNERS	Ref002371353	01/23/07	UB Refund Cst #0000086031	764.50	764.50
2004240	01/03/07	00078	PUBLIC EMPLOYEES RETIREMENT	Ben2370520	12/27/06	PERS CONTRIBUTION	102,165.09	102,165.09
2004375	01/17/07	00078	PUBLIC EMPLOYEES RETIREMENT	Ben2370896	01/09/07	PERS CONTRIBUTION	103,565.92	103,565.92
2004682	01/31/07	00078	PUBLIC EMPLOYEES RETIREMENT	Ben2371245	01/23/07	PERS CONTRIBUTION	104,108.40	104,108.40
2004602	01/25/07	06694	R A ELLISON	Ref002371338	01/23/07	UB Refund Cst #0000041165	59.79	59.79
2004241	01/03/07	01342	R J SAFETY SUPPLY CO INC	23142101	12/14/06	SAFETY EQUIPMENT & APPAREL	11.64	11.64

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2004316	01/10/07	01342	R J SAFETY SUPPLY CO INC	23142102	12/20/06	WAREHOUSE SAFETY SUPPLIES	73.81	73.81
2004465	01/24/07	01342	R J SAFETY SUPPLY CO INC	23235000	01/03/07	WAREHOUSE SAFETY SUPPLIES	281.69	281.69
2004683	01/31/07	01342	R J SAFETY SUPPLY CO INC	23235001	01/10/07	SAFETY VESTS & GOGGLES	316.14	316.14
2004603	01/25/07	06729	RA SNYDER	Ref002371373	01/23/07	UB Refund Cst #0000088574	30.62	30.62
2004604	01/25/07	06669	RACQUEL BRAVO	Ref002371313	01/23/07	UB Refund Cst #000006285	75.00	75.00
2004605	01/25/07	06696	RAMON MORALES	Ref002371340	01/23/07	UB Refund Cst #0000043214	41.20	41.20
2004242	01/03/07	00766	RANROY PRINTING COMPANY	087129	12/12/06	BUSINESS CARDS	48.49	48.49
2004466	01/24/07	00766	RANROY PRINTING COMPANY	087334	12/31/06	BUSINESS CARDS	48.49	48.49
2004684	01/31/07	00021	RCP BLOCK & BRICK INC	4312116 4310748 4311645	12/12/06 01/09/07	MIX PALLET RENTAL CONCRETE CONCRETE	(10.00) 770.64 759.64	1,520.28
2004467	01/24/07	06645	RELIABLE ELEVATOR INC	8150	12/29/06	ELEVATOR CODE WORK	760.00	760.00
2004606	01/25/07	06691	RICARDO GARCIA	Ref002371335	01/23/07	UB Refund Cst #0000037943	20.77	20.77
2004468	01/24/07	04542	ROBAK, MARK	70141206	12/31/06	MILEAGE REIMBURSEMENT	49.84	49.84
2004607	01/25/07	06759	ROBERT CARBRAY	Ref002371403	01/23/07	UB Refund Cst #0000065552	33.82	33.82
2004317	01/10/07	06655	ROGER BENITEZ	015574	01/08/06	REFUND ACCT 290-0836-42	2,000.00	2,000.00
2004608	01/25/07	06681	RON MERRITT	Ref002371325	01/23/07	UB Refund Cst #0000022910	19.74	19.74
2004469	01/24/07	00217	RW LITTLE CO INC	80737	12/29/06	SANDBLASTING AND POWDER COATING	250.00	250.00
2004243	01/03/07	02683	SAFECHECKS INC	0504939 0504946	12/13/06 12/13/06	LASER CHECKS LASER CHECKS	742.75 196.89	939.64
2004470	01/24/07	03803	SAN DIEGO CLIPPING SERVICE INC	439070101	01/01/07	NEWSPAPER CLIPPING SERVICE	89.00	89.00
2004471	01/24/07	06530	SAN DIEGO COUNTRY CLUB INC	015603	01/18/07	EMPLOYEE RECOGNITION LUNCHEON 2007	7,047.89	7,047.89
2004685	01/31/07	02680	SAN DIEGO COUNTY	015622	01/30/07	SEMINAR REGISTRATION	75.00	75.00
2004318	01/10/07	00247	SAN DIEGO DAILY TRANSCRIPT	33931	12/25/06	AD FOR ENGG CONSULTING SVCS	466.90	466.90

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2004376	01/17/07	00247	SAN DIEGO DAILY TRANSCRIPT	23050	09/18/06	BID ADVERTISEMENT	588.70	588.70
2004244	01/03/07	00121	SAN DIEGO GAS & ELECTRIC	015544	12/22/06	UTILITY EXPENSES	47,731.06	47,731.06
2004319	01/10/07	00121	SAN DIEGO GAS & ELECTRIC	015575	12/31/06	UTILITY EXPENSES	1,453.03	
				015573	12/31/06	UTILITY EXPENSES	54,736.27	
				015554	12/27/06	UTILITY EXPENSES	54,588.80	110,778.10
2004377	01/17/07	00121	SAN DIEGO GAS & ELECTRIC	015590	01/04/07	UTILITY EXPENSES	347.29	347.29
2004472	01/24/07	00121	SAN DIEGO GAS & ELECTRIC	015604	01/18/07	UTILITY EXPENSES	14,269.15	14,269.15
2004686	01/31/07	00121	SAN DIEGO GAS & ELECTRIC	015623	01/24/07	UTILITY EXPENSES	91,640.90	
				015624	01/26/07	UTILITY EXPENSES	2,172.35	
				015613	01/23/07	UTILITIES EXPENSES	549.61	94,362.86
2004320	01/10/07	03809	SAN DIEGO NEIGHBORHOOD NEWS	01523800001	12/15/06	JOB POSTING	126.00	
				01523796001	12/15/06	JOB POSTING	109.20	
				01523797001	12/15/06	JOB POSTING	109.20	
				01523799001	12/15/06	JOB POSTING	88.20	432.60
2004687	01/31/07	03809	SAN DIEGO NEIGHBORHOOD NEWS	01523969001	01/05/07	JOB POSTING	147.00	
				01523972001	01/05/07	JOB POSTING	121.80	
				01523971001	01/05/07	JOB POSTING	109.20	378.00
2004321	01/10/07	03273	SAN DIEGO READER	164	12/20/06	JOB POSTING	131.26	
				162	12/20/06	JOB POSTING	118.98	
				163	12/20/06	JOB POSTING	118.03	
				161	12/20/06	JOB POSTING	103.86	472.13
2004473	01/24/07	03273	SAN DIEGO READER	167	01/03/07	JOB POSTING	159.50	
				166	01/03/07	JOB POSTING	126.95	
				165	01/03/07	JOB POSTING	121.70	408.15
2004609	01/25/07	06775	SAN MIGUEL VILLAGE LLC	Ref002371419	01/23/07	UB Refund Cst #0000078981	906.94	906.94
2004378	01/17/07	06660	SANDRA KRIZAN	015589	01/16/07	REFUND OVERPAYMENT 231-3557-10	94.51	94.51
2004474	01/24/07	03514	SANTOS, MARCIANO	015591	01/17/07	TUITION REIMBURSEMENT	297.94	297.94
2004610	01/25/07	06736	SAUKING CHAN	Ref002371380	01/23/07	UB Refund Cst #0000089206	14.66	14.66
2004611	01/25/07	06789	SCHUFF FAMILY TRUST	Ref002371433	01/23/07	UB Refund Cst #0000083198	90.87	90.87
2004688	01/31/07	05512	SD COUNTY VECTOR CONTROL PROG	015625	01/29/07	ASSESSMENT FEE	586.82	586.82

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2004322	01/10/07	00682	SD COUNTY WATER WORKS GROUP	015560	01/03/07	BUSINESS MEETING	30.00	30.00
2004612	01/25/07	06756	SDG&E	Ref002371400	01/23/07	UB Refund Cst #0000092337	850.00	850.00
2004613	01/25/07	06697	SEAN MCILWAIN	Ref002371341	01/23/07	UB Refund Cst #0000044065	71.00	71.00
2004379	01/17/07	06651	SEDONA STAFFING	133759	12/26/06	PRE-EMPLOYMENT SERVICES	45.50	45.50
2004323	01/10/07	02040	SEDONA STAFFING SERVICES	463896	12/22/06	TEMPORARY SERVICES - ENGG DEPT	1,222.65	
				463970	12/29/06	TEMPORARY SERVICES - ENGG DEPT	1,211.50	
				47152	01/05/07	TEMPORARY SERVICES - ENGG DEPT	724.67	3,158.82
2004614	01/25/07	06767	SERGIO GARCIA	Ref002371411	01/23/07	UB Refund Cst #0000072940	14.16	14.16
2004245	01/03/07	00419	SHAPE PRODUCTS CO	127002	12/14/06	LABORATORY SUPPLIES	600.31	600.31
2004615	01/25/07	06805	SHARA GUARNES	Ref002371450	01/23/07	UB Refund Cst #0000085657	75.00	75.00
2004616	01/25/07	06672	SHARON ELLIOTT	Ref002371316	01/23/07	UB Refund Cst #0000010294	12.68	12.68
2004324	01/10/07	01651	SHARP REES-STEALY MEDICAL CTRS	183	12/16/06	HEALTH EXAMS	687.00	687.00
2004325	01/10/07	03997	SHEA HOMES	015578	01/08/07	WORK ORDER REFUND D0237-XX9580	516.73	516.73
2004617	01/25/07	06737	SHEILA LIPIN	Ref002371381	01/23/07	UB Refund Cst #0000089292	34.73	34.73
2004326	01/10/07	05983	SIEMENS WATER	7818599	12/21/06	BIOXIDE	711.15	
				7818598	12/21/06	CREDIT MEMO	(484.87)	226.28
2004380	01/17/07	05983	SIEMENS WATER	4340410	12/01/06	DEIONIZED PROCESSING TANK RENTAL	66.00	
				1995726	12/26/06	COLUMN EXCHANGES	150.52	216.52
2004475	01/24/07	05983	SIEMENS WATER	7818698	12/29/06	BIOXIDE	704.03	
				2002104	01/02/07	PARTS FOR ENCORE 700 METERING PUMPS	531.94	1,235.97
2004476	01/24/07	05627	SIGNA DIGITAL SOLUTIONS INC	ARS05802	12/29/06	COPIER MAINTENANCE	454.88	
				ARS05801	12/29/06	COPIER MAINTENANCE	101.00	
				ARS05799	12/29/06	COPIER MAINTENANCE	101.00	
				ARS05803	12/29/06	COPIER MAINTENANCE	100.00	
				ARS05800	12/29/06	COPIER MAINTENANCE	24.00	780.88
2004618	01/25/07	06743	SIGNS & PINNICK	Ref002371387	01/23/07	UB Refund Cst #0000089989	89.92	89.92
2004689	01/31/07	01691	SKILLPATH SEMINARS	9003087	01/22/07	SEMINAR REGISTRATION	199.00	199.00
2004246	01/03/07	00258	SLOAN ELECTRIC CO	0051072	12/11/06	STEADY BUSHING #1 850-2	448.71	448.71

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2004477	01/24/07	05201	SOCIETY FOR MARKETING	015594	01/19/07	SMPS MEETING	120.00	120.00
2004619	01/25/07	06711	SONDRA WILSON	Ref002371355	01/23/07	UB Refund Cst #0000086134	115.29	115.29
2004247	01/03/07	03103	SOUTHCOAST HEATING &	C31515	12/12/06	HEATING & AIR MAINTENANCE	857.00	857.00
2004690	01/31/07	03103	SOUTHCOAST HEATING &	C31808	01/11/07	AIR CONDITIONING MAINTENANCE	857.00	857.00
2004248	01/03/07	04404	SOUTHERN CALIFORNIA WATER	015548	12/17/06	MEMBERSHIP DUES FOR 2007	25.00	25.00
2004478	01/24/07	00725	SOUTHLAND CLUTCH	9775	01/03/07	REPAIR PARTS FOR TRUCK #103	400.57	400.57
2004691	01/31/07	00725	SOUTHLAND CLUTCH	9544	12/21/06	REPAIR PARTS	668.96	668.96
2004381	01/17/07	03760	SPANKY'S PORTABLE SERVICES INC	641888 641887 641889 641890 642040	12/22/06 12/22/06 12/22/06 12/22/06 12/25/06	PORTABLE TOILET RENTAL PORTABLE TOILET RENTAL PORTABLE TOILET RENTAL PORTABLE TOILET RENTAL PORTABLE TOILET RENTAL	68.62 67.02 67.02 67.02 67.02	336.70
2004479	01/24/07	03760	SPANKY'S PORTABLE SERVICES INC	644043 643859	01/04/07 01/03/07	PORTABLE TOILET RENTAL PORTABLE TOILET RENTAL	84.13 55.64	139.77
2004327	01/10/07	03516	SPECIAL DISTRICT RISK	GC2768	12/22/06	PROPERTY DEDUCTIBLE	500.00	500.00
2004480	01/24/07	03516	SPECIAL DISTRICT RISK	19937	01/10/07	PROPERTY & LIABILITY INSURANCE CERT	125.00	125.00
2004692	01/31/07	03516	SPECIAL DISTRICT RISK	GC2772	01/11/07	INSURANCE CLAIM DEDUCTIBLE	500.00	500.00
2004328	01/10/07	00590	SPECIALTY SEALS & ACCESSORIES	24358	12/20/06	REBUILD SEAL #1 PUMP 1004 STATION	236.62	236.62
2004382	01/17/07	03185	SPRING VALLEY CITIZENS	015587	01/10/07	ANNUAL MEMBERSHIP RENEWAL	40.00	40.00
2004329	01/10/07	03600	SPRINT	015564	12/14/06	WIRELESS CARDS SERVICE	393.52	393.52
2004481	01/24/07	03600	SPRINT	015596 015595	01/14/07 11/14/06	WIRELESS CARDS SERVICE WIRELESS CARDS SERVICE	1,183.55 393.52	1,577.07
2004249	01/03/07	02354	STANDARD ELECTRONICS	8804	12/11/06	SECURITY SERVICE & REPAIRS	170.00	170.00
2004383	01/17/07	02354	STANDARD ELECTRONICS	8803	12/11/06	SECURITY SERVICE & REPAIRS	448.35	448.35
2004693	01/31/07	02354	STANDARD ELECTRONICS	8902 8901	01/08/07 01/08/07	SECURITY SERVICE & REPAIRS SECURITY SERVICE & REPAIRS	140.43 1,525.00	1,665.43

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2004330	01/10/07	00480	STATE BOARD OF EQUALIZATION	015572	12/31/06	CA SALES USE TAX - 4TH QTR 2006 PYMT	734.29	734.29
2004331	01/10/07	06295	STATE DISBURSEMENT UNIT	Ben2370910	01/09/07	PAYROLL DEDUCTION	294.46	294.46
2004332	01/10/07	06299	STATE DISBURSEMENT UNIT	Ben2370908	01/09/07	PAYROLL DEDUCTION	237.69	237.69
2004333	01/10/07	06303	STATE DISBURSEMENT UNIT	Ben2370912	01/09/07	PAYROLL DEDUCTION	482.76	482.76
2004394	01/24/07	06295	STATE DISBURSEMENT UNIT	Ben2371259	01/23/07	PAYROLL DEDUCTION	294.46	294.46
2004395	01/24/07	06299	STATE DISBURSEMENT UNIT	Ben2371257	01/23/07	PAYROLL DEDUCTION	237.69	237.69
2004396	01/24/07	06303	STATE DISBURSEMENT UNIT	Ben2371261	01/23/07	PAYROLL DEDUCTION	482.76	482.76
2004334	01/10/07	02261	STATE STREET BANK & TRUST CO	Ben2370898	01/09/07	DEFERRED COMP PLAN	4,547.46	4,547.46
2004397	01/24/07	02261	STATE STREET BANK & TRUST CO	Ben2371247	01/23/07	DEFERRED COMP PLAN	3,794.46	3,794.46
2004335	01/10/07	05755	STATE WATER RESOURCES	015577	01/08/07	OPERATOR EXAM/CERT APPLICATION FEE	170.00	170.00
2004620	01/25/07	06742	STEPHEN PUETZ	Ref002371386	01/23/07	UB Refund Cst #0000089924	47.83	47.83
2004621	01/25/07	06698	STEVE COCHRANE	Ref002371342	01/23/07	UB Refund Cst #0000044714	60.92	60.92
2004622	01/25/07	06726	STEVE SWEENEY	Ref002371370	01/23/07	UB Refund Cst #0000088437	16.58	16.58
2004623	01/25/07	06703	STEVEN SLADEK	Ref002371347	01/23/07	UB Refund Cst #0000047698	852.74	852.74
2004482	01/24/07	00408	SWEETWATER AUTHORITY	015579	01/02/07	TEMPORARY WATER SERVICE	408.51	408.51
2004250	01/03/07	02799	TARULLI TIRE INC - SAN DIEGO	20027827	11/17/06	TIRE REPAIR SERVICES	499.85	
				20027922	11/29/06	TIRE REPAIR SERVICES	321.86	
				20027436	10/30/06	TIRE REPAIR SERVICES	314.02	
				20027829	11/17/06	TIRE REPAIR SERVICES	163.08	
				20027923	11/29/06	TIRE REPAIR SERVICES	30.00	
				20028073	12/13/06	TIRE REPAIR SERVICES	28.47	
				20028072	12/13/06	TIRE REPAIR SERVICES	28.00	1,385.28
2004337	01/10/07	02799	TARULLI TIRE INC - SAN DIEGO	20028135	12/20/06	TIRE REPAIR SERVICES	33.40	33.40
2004385	01/17/07	02799	TARULLI TIRE INC - SAN DIEGO	20028159	12/22/06	TIRE REPAIR SERVICES	361.00	
				20028158	12/22/06	TIRE REPAIR SERVICES	40.00	
				20028157	12/22/06	TIRE REPAIR SERVICES	20.47	421.47
2004483	01/24/07	02799	TARULLI TIRE INC - SAN DIEGO	20027378		TIRE REPAIR SERVICES	(113.56)	
				20028249	01/03/07	TIRES & REPAIR SERVICES	842.72	

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				20028266	01/04/07	TIRES & REPAIR SERVICES	147.45	
				20028265	01/04/07	TIRE & REPAIR SERVICES	77.18	
				20028212	12/29/06	TIRE REPAIR SERVICES	27.00	
				20028213	12/29/06	TIRE REPAIR SERVICES	20.47	1,001.26
2004484	01/24/07	01834	TC CONSTRUCTION INC	18170	12/29/06	450-1 RW RESERVOIR & 680-1 RW PS	701,920.00	701,920.00
2004338	01/10/07	02376	TECHKNOWSION INC	1902	12/06/06	SOFTWARE SUPPORT RENEWAL	11,031.53	11,031.53
2004624	01/25/07	06800	TERESA LINDHARDT	Ref002371445	01/23/07	UB Refund Cst #0000085152	64.65	64.65
2004625	01/25/07	06241	TERRALYNN CLAY	Ref002371438	01/23/07	UB Refund Cst #0000083690	75.00	75.00
2004626	01/25/07	06808	THOMAS RUIZ SR	Ref002371453	01/23/07	UB Refund Cst #0000085931	29.92	29.92
2004627	01/25/07	06773	TIMOTHY WHITING	Ref002371417	01/23/07	UB Refund Cst #0000076139	75.00	75.00
2004336	01/10/07	04977	T-MOBILE	015561	12/15/06	CELL PHONE & BLACKBERRY SERVICES	2,499.26	
				4272085931206	12/04/06	BLACKBERRY SERVICE	171.30	2,670.56
2004384	01/17/07	04977	T-MOBILE	4150860450107	01/04/07	CELL PHONE & BLACKBERRIES SERVICE	2,166.40	
				4272085931206	01/04/07	CELL PHONE & BLACKBERRY SERVICES	171.30	2,337.70
2004628	01/25/07	06670	TOM MEADOWS	Ref002371314	01/23/07	UB Refund Cst #000008585	24.30	24.30
2004339	01/10/07	04560	TONY LIPKA	OTAY0701	01/09/07	WORKSHOP REGISTRATIONS	250.00	250.00
2004694	01/31/07	03314	TRAN, THIEN	015612	01/25/07	COMPUTER LOAN PROGRAM	950.39	950.39
2004629	01/25/07	06730	ULISES CAMACHO	Ref002371374	01/23/07	UB Refund Cst #0000088583	75.00	75.00
2004485	01/24/07	00427	UNDERGROUND SERVICE ALERT OF	1220060458	01/01/07	UNDERGROUND TRENCH SERVICE ALERTS	366.40	366.40
2004486	01/24/07	03563	UNDERGROUND UTILITIES INC	126505	12/29/06	METER REPLACEMENT/RETROFIT TO RTR	16,121.00	16,121.00
2004487	01/24/07	00075	UNION TRIBUNE PUBLISHING CO	C061202771	12/31/06	JOB POSTINGS	5,842.37	
				C061202772	12/31/06	AD FOR ENGINEERING CONSULTING SVCS	198.40	6,040.77
2004488	01/24/07	02613	UNITED RENTALS NORTHWEST INC	61864945001	12/29/06	CONCRETE	250.60	
				61895124001	01/02/07	CONCRETE	118.53	369.13
2004340	01/10/07	05417	UNITED STATES DEPARTMENT	Ben2370916	01/09/07	PAYROLL DEDUCTION	100.00	100.00
2004398	01/24/07	05417	UNITED STATES DEPARTMENT	Ben2371265	01/25/07	PAYROLL DEDUCTION	100.00	100.00
2004341	01/10/07	00853	UNIVAR USA INC	SD624375	12/18/06	BULK AQUA AMMONIA	1,951.53	

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				SD624377	12/18/06	BULK AQUA AMMONIA	1,951.53	
				SD624376	12/18/06	BULK AQUA AMMONIA	450.35	4,353.41
2004399	01/24/07	03212	UNUM LIFE INSURANCE	Ben2371243	01/23/07	LONG TERM DISABILITY	5,496.62	5,496.62
2004695	01/31/07	02674	USA BLUE BOOK	298894	01/09/07	RUBBER HOSE	556.76	556.76
2004342	01/10/07	01095	VANTAGEPOINT TRANSFER AGENTS	Ben2370906	01/09/07	DEFERRED COMP PLAN	5,771.39	5,771.39
2004400	01/24/07	01095	VANTAGEPOINT TRANSFER AGENTS	Ben2371255	01/23/07	DEFERRED COMP PLAN	5,771.39	5,771.39
2004630	01/25/07	06718	VENTURE CORPORATION	Ref002371362	01/23/07	UB Refund Cst #0000087108	8.48	8.48
2004343	01/10/07	03329	VERIZON WIRELESS	2100276341	12/21/06	CELL PHONE SERVICE	6,040.76	6,040.76
2004631	01/25/07	06695	VICKI HAMMITT	Ref002371339	01/23/07	UB Refund Cst #0000041330	17.50	17.50
2004696	01/31/07	06811	VITELA, AL	3921794661	01/29/07	SAFETY BOOTS REIMBURSEMENT	87.26	87.26
2004632	01/25/07	06758	W MUNFORD	Ref002371402	01/23/07	UB Refund Cst #0000060757	53.47	53.47
2004251	01/03/07	00101	W W GRAINGER INC	9251798279	12/11/06	WAREHOUSE SUPPLIES	167.59	167.59
2004344	01/10/07	00101	W W GRAINGER INC	9258314088	12/19/06	HARDWARD	172.78	
				9255853500	12/15/06	FLASHLIGHTS	27.47	200.25
2004386	01/17/07	00101	W W GRAINGER INC	9260611364	12/22/06	SAFETY LANYARD 6'	266.70	
				9260545513	12/22/06	FLUORESCENT LAMPS	57.93	324.63
2004489	01/24/07	00101	W W GRAINGER INC	9264515835	01/02/07	PRESSURE GAUGES	90.62	
				9264541617	01/02/07	ROPE	54.46	145.08
2004697	01/31/07	00101	W W GRAINGER INC	9268315273	01/08/07	AQUA PURE HIGH FLOW WATER FILTERS	370.58	
				9267209600	01/05/07	PAINT	288.40	
				9270287098	01/10/07	MULTIMETERS	262.27	921.25
2004387	01/17/07	00262	WATER AGENCIES ASSOCIATION	015586	01/10/07	MEETING REGISTRATION	86.00	86.00
2004490	01/24/07	03727	WATER ENVIRONMENT FEDERATION	015598	01/18/07	MEMBERSHIP	242.00	242.00
2004252	01/03/07	03621	WATEREUSE ASSOCIATION	015549	12/27/06	MEMBERSHIP FEE	75.00	75.00
2004698	01/31/07	01343	WE GOT YA PEST CONTROL	39220	12/19/06	BEE REMOVAL	115.00	
				39716	01/19/07	BEE REMOVAL	115.00	
				39480	01/10/07	PEST CONTROL	40.00	
				39479	01/10/07	PEST CONTROL	40.00	310.00

OTAY WATER DISTRICT
CHECK REGISTER
FOR CHECKS 2004205 THROUGH 2004700
RUN DATES 1/3/2007 TO 1/31/2007

Check #	Date	Vendor	Vendor name	Invoice	Inv Date	Description	Amount Paid	Check Total
2004345	01/10/07	00190	WEST PAYMENT CENTER	812761749	12/20/06	LEGAL LIBRARY UPDATES & SUBS SVC	1,144.33	1,144.33
2004253	01/03/07	03692	WESTIN ENGINEERING INC	27161	12/11/06	SCADA DOCUMENTATION PROJECT	6,120.00	6,120.00
2004491	01/24/07	03437	WIENHOFF DRUG TESTING INC	13094	01/02/07	HEALTH TESTS	305.00	305.00
2004633	01/25/07	06771	WILLIAM POURIAN	Ref002371415	01/23/07	UB Refund Cst #0000074776	20.10	20.10
2004492	01/24/07	02725	WILLIAMS SCOTSMAN	68862993	01/02/07	28' TRAILER RENTAL	287.53	287.53
2004699	01/31/07	02725	WILLIAMS SCOTSMAN	68970177	01/08/07	MOBILE OFFICE RENTAL	310.52	310.52
2004700	01/31/07	03423	WINZER CORPORATION	28542347 2854236	01/10/07	THREADLOCKER GEL TWIST ITEMS FOR STOCK	(16.83) 311.27	294.44
GRAND TOTAL							2,543,695.31	2,543,695.31



CH2MHILL

CH2M HILL
402 W. Broadway
Suite 1450
San Diego, CA 92101
Tel 619.687.0120 x 7231
Fax 619.687.0111

January 16, 2007

Ms. Marty Eberhardt, Executive Director
Water Conservation Garden
12122 Cuyamaca College Drive West
El Cajon, CA 92019

Subject: 2007 Spring Garden Festival at the Water Conservation Garden

Dear Ms. Eberhardt,

Thank you for providing CH2M HILL the opportunity to support the Water Conservation Garden 2007 Spring Garden Festival. With pleasure, we eagerly support this premier event as a \$1,000 Sponsor.

CH2M HILL applauds your commitment in creating a state-of-the-art demonstration garden that operates as a learning resource center to encourage water conservation in southern California through programs that educate and inspire the public.

We look forward to working with you at the May 2007 Spring Garden Festival and we wish you success with your efforts.

Sincerely,

Bob Pruitt
San Diego Office Manager

Cc Mark Weston, Helix Water District
Mark Watton, Otay Water District
Jeff Thornbury, CH2M HILL

Salt Creek
Golf Club

January 13, 2007

Mr. Mark Watton, General Manager
OTAY WATER DISTRICT
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978-2004

Dear Mark:

I have enclosed a copy of the January 2207 issue of *Southland Golf*. Salt Creek is prominently featured in the San Diego Golf Report section (page 52).

We remain committed to creating *the* premier golf facility in all of San Diego.

Sincerely,



William Gustafson, Managing Member

WAG/lw
Enclosure

Cc: Yuri Calderón, Esq., with enclosure

Salt Creek Golf, LLC
1465 East Mountain Drive
Santa Barbara, CA 93108

SOUTHLAND GOLF

SOUTHERN CALIFORNIA GOLF AND LIFESTYLE

SOUTHLANDGOLFMAGAZINE.COM | JANUARY 2007

RAGS TO RICHES

PAUL GOYDOS GETS ANOTHER SHOT ON THE PGA TOUR

SAN DIEGO GOLF REPORT

10 GREAT PLACES TO STAY AND PLAY

TIGER SHARES HIS SECRETS

WORDS OF WISDOM FROM THE WORLD'S BEST GOLFER

SHAPE UP!

10 RESOLUTIONS TO START THE YEAR

THE LESSONS:

- > WHY 'SHORT GAME' MATTERS
- > IMPROVE YOUR SAND PLAY
- > HOW TO GAIN CONFIDENCE



By George!

COMEDIAN TAKES CENTER STAGE AT THE BOB HOPE CLASSIC

PLUS: THE REST OF THE WEST COAST SWING

New and improved

SALT CREEK IS MAKING A NAME FOR ITSELF. BY ELI MILLER

The transformation of the Auld Course into Salt Creek Golf Club has attracted significant attention.

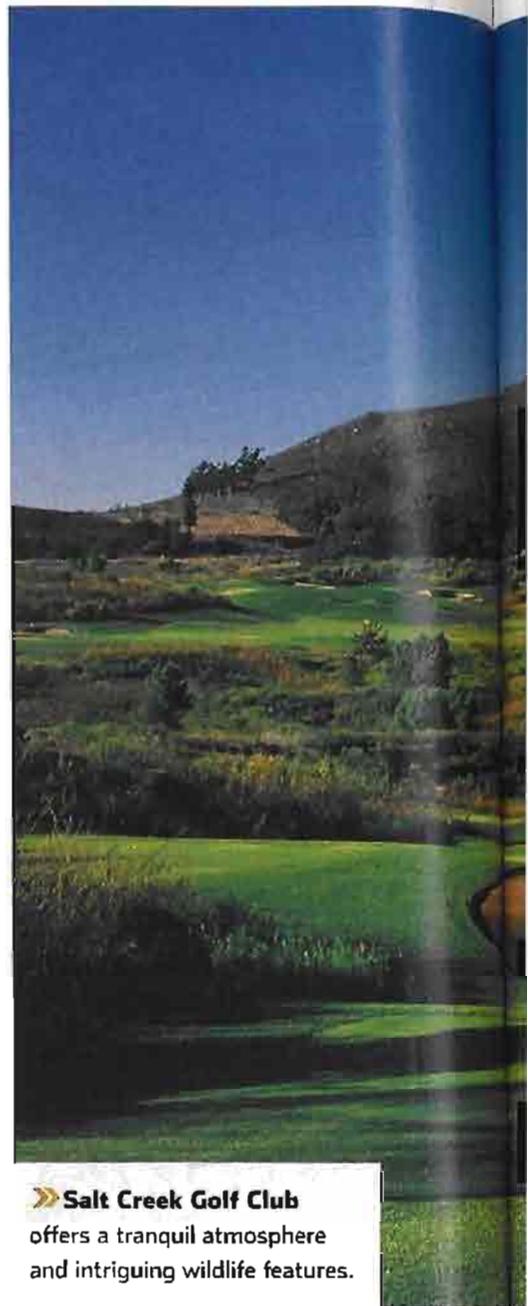
A new ownership group assumed control of the Chula Vista facility less than a year ago, and the course officially abandoned the Auld moniker on June 1. Improvements to the links-style course have been reinforced by the presence of high-profile athletes from inside and outside the golf world.

The course recently hosted the championship flight of the SCCA Tournament of Club Champions, where only Johnny Holmes of Quail Ranch Golf Club managed to shoot under par.

Playing 6,855 yards from the tips with a par of 72, Salt Creek is also the home course of the San Diego State women's golf team. The program hosted the Lady Aztec Fall Classic in October, and the event managed to attract some of the top squads in the nation.

"I think the course is starting to establish itself as a place that can deliver high-quality golf tournaments for all levels of competition," said Tom Frost, former American Golf Corporation executive and Salt Creek partner. "We focused very hard on the conditioning of the course and the level of service."

In addition to high-profile amateur golfers, Salt Creek has received business from athletes at the United States Olympic Training Center, which is located about five miles from the course.



» **Salt Creek Golf Club** offers a tranquil atmosphere and intriguing wildlife features.



"They've done a great job providing discounts to our athletes," said Diana Wright, public information coordinator for the center. "The lessons [our athletes] have received have been really successful."

The Olympic patrons use the facility to hone their games during leisure time.

Salt Creek also has retained its tranquil atmosphere and intriguing wildlife features. Course superintendent Rob Browns, formerly of Reidy Creek Golf Course in Escondido, has the track in prime condition for the start of 2007.

"The greens have never been better," said director of golf Ron Gorski. "[Rob] has them rolling pretty well."

(619) 482-4666 or
www.saltcreekgc.com.

STEELE CANYON IS ALWAYS IN GREAT SHAPE

With three nine-hole layouts, Steele Canyon Golf Club offers a variety of landscape characteristics that are always in pristine condition.

"We try to provide a tournament-quality course every day," said superintendent Phil Fitzgerald, who has been at the Jamul course since 2001. "The way we oversee the course is like nobody else. There are also water conservation issues because water in the area is so expensive."

By overseeding a smaller percentage of Steele Canyon's acreage, Fitzgerald and his staff have promoted healthy Bermuda grass in the fairways and

decreased the amount of poa, thus priming the course for peak playing conditions.

Assisting him in day-to-day activities is Beau, a chocolate Labrador retriever who not only scares ducks away from playing areas but also provides stress relief for patrons.

"Some golfers like to talk about him more than how they're playing," Fitzgerald said. "He definitely earns his keep."

Fitzgerald has been an instrumental force in the San Diego chapter of the California Golf Course Superintendents Association, and the course recently hosted the ninth annual Scholarship & Research Tournament, benefiting the



» **Phil Fitzgerald**, with his Labrador retriever, has been instrumental in keeping conditions at Steele Canyon up to par.

Located in Valley Center, the 6,505-yard, par-72 track utilizes water hazards and tree-lined fairways to place a premium on accuracy and shot-making skills. While the front nine is straightforward with danger in plain sight, the back nine features narrower holes that require a more strategic approach.

"Right now the course is in the best condition it's been in since it opened," said general manager Dennis Sullivan. "People keep coming back and talking

"Right now the course is in the best condition it's been in since it opened."

- DENNIS SULLIVAN,
GENERAL MANAGER
WOODS VALLEY

about what a pleasant experience it is."

A unique feature at the course expected to be completed by the end of February are cart paths made from decompressed granite, which will give the venue an earthy look to complement its diverse setting.

Also on tap this year is the establishment of a men's club. Membership is \$60 annually and events will be held Wednesdays and Saturdays.

(760) 751-3007 or
www.woodsvalleygolfclub.com.

SAIL HO BACK IN BUSINESS AFTER RECENT UPGRADES

Sail Ho Golf Club opened in 1925 to help round out the physical fitness and well-being program for recruits at the Naval Training Center in San Diego. Among those who honed their skills at Sail Ho were Sam Snead, who was the course's head professional during his military service, as well as junior standouts Craig Stadler and Phil Mickelson.

In an effort to restore Sail Ho to prominence, the Corky McMillin Companies, aided by the guidance of CSC Golf Management Inc., redeveloped the track as part of the new Liberty Station community. After being closed for two years, the track reopened to the public September 30.

"People absolutely love it," said assistant operations manager Larry St. Clair. "It's more challenging than you think."

Prior to architect Cary Bickler's redesign, Sail Ho's executive layout featured seven par-3 holes and a pair of par-4s. It now has all par-3s, ranging from 70 to 204 yards from the back tees.

The course is in superb shape, with well-groomed putting surfaces and manicured fairways and tee boxes. Additional amenities include a new clubhouse, improved practice area and the Sail Ho Bar & Grill.

The course appears well on its way to again becoming a fixture in the San Diego golfing landscape. Sail Ho will

Ray Spardy Memorial Scholarship.

Funds raised from the event are divided between Turfgrass research and educational opportunities for those pursuing the course maintenance industry.

With his peers participating in the tournament, Fitzgerald had Steele Canyon in its usual solid shape.

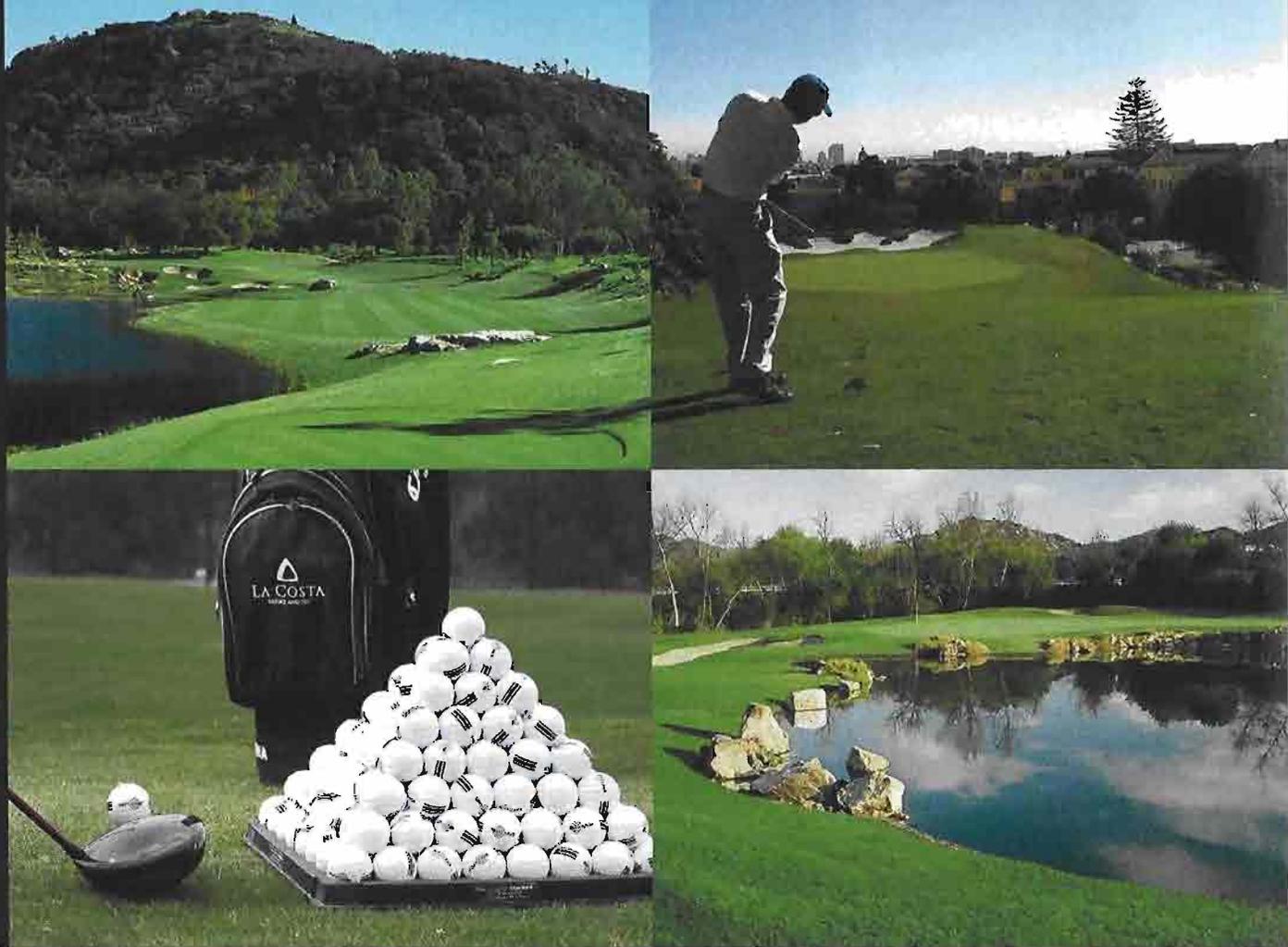
"I've got a fantastic staff that works really hard. We didn't have to do a whole lot extra," he said.

(619) 441-6900 or
www.steelecanyon.com.

WOODS VALLEY MAKES GOOD FIRST IMPRESSION

Woods Valley Golf Club will complete its second year of operation in May, though the course hasn't needed much time to establish itself as one of the most popular in San Diego County.

» SAN DIEGO GOLF REPORT



» Clockwise from top left: Woods Valley Golf Club, a par-3 at Sail Ho, Eagle Crest Golf Club, and the new range at La Costa.

host at least two junior golf tournaments this year and has hired Tim Parun to lead the teaching facility.

"Tim is really well-known in the area," St. Clair said. "He's a good guy and he brings a lot of clientele with him."

(619) 222-4653 or
www.sailhogolf.com.

EAGLE CREST PROVIDES NATURE AT ITS FINEST

Located near the San Diego Wild Animal Park, Eagle Crest Golf Club offers an enjoyable golfing experience in the heart of a stunning natural setting.

There is a wildlife preserve mixed into the 18-hole layout, which offers a suitable challenge to players of all skill levels. Eight lakes, a variety of waterfalls and wildflowers and the occasional eagle flying overhead add to the natural beauty.

Improvements at Eagle Crest that

have been completed or are in the works include new carts, leveled tee boxes, new sand in the bunkers and a new clubhouse.

"The course has definitely grown up since it first opened [in 1992]," said assistant manager Matt Benedict. "There's definitely a country club atmosphere here."

The location in Escondido gives Eagle Crest a peaceful ambience and ideal weather conditions year round.

(760) 737-9762 or
www.eaglecrestgc.com.

DEL MAR'S GOLF FEST HAS SOMETHING FOR EVERYONE

Golf Fest celebrates its 10th anniversary March 9-11 at the Del Mar Fairgrounds, and they're providing a gift. All attendees at the three-day event will receive a free round of golf at Warner Springs Ranch.

Visitors also can see and experience more than 100 displays of the latest golf merchandise, services and entertainment. Hands-on activities include golf instruction, a hitting cage to test equipment and a golf simulator featuring some famous courses. Contests and raffles will be held for equipment, tee times and golf vacations, and live presentations, shows and junior-themed video games are also on the agenda.

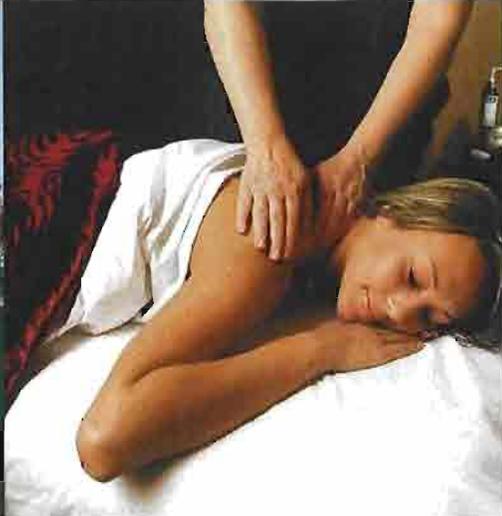
Admission is \$10, with children under 12 admitted free.

(858) 586-1202 or
www.golffestshow.com.

JC RESORTS UPGRADES REGIONAL FACILITIES

A new clubhouse and new guestrooms are now part of the package at JC Resorts' Encinitas Ranch Golf Course and Rancho Bernardo Inn.

The remodeled clubhouse at Encinitas



» From left: The clubhouse at the Crossings, set to open this summer, and a relaxing massage at Sycuan's new spa.

Ranch is designed to serve individuals and large tournaments, with an enhanced menu, full-service bar and new televisions part of the upgrade. Indoor seating for up to 150 guests, an outdoor patio that can accommodate up to 60, portable scoreboards for indoor scoring and a private room make the clubhouse ideal for tournament gatherings.

The renovations at Rancho Bernardo include high-tech entertainment offerings, original artwork, enhanced rooms and early California-inspired furnishings throughout the property.

Rancho Bernardo is also known for its fine cuisine at El Bizcocho and Veranda, and the Buena Vista spa has received accolades. The inn, which also offers meeting space for groups of 25 to 500, is located near the Wild Animal Park and Legoland, making it an ideal spot for children and families, as well.

www.jcresorts.com.

LA COSTA WELCOMES FLICK TO PRACTICE CENTER

Golf instructor Jim Flick recently opened an office at La Costa Resort and Spa's redesigned \$1.5 million practice facility.

"This is an outstanding place for golfers of all ages to enjoy improving their game," said Flick, a member of the World Golf Teachers Hall of Fame, who relocated from Arizona and plans to work at the facility. "La Costa has done a marvelous job with the renovation."

Joining Flick at the facility is Roger Fredericks, who opened his Golf Swing Flexibility Program at La Costa in December.

"It is very exciting to see La Costa leading the way in offering one of the most complete golf programs in the world in an ideal setting," Fredericks said.

The project expanded the previous 4.5 acres into 10 acres, complete with new sod,

"Having a spa is an amenity resort guests have come to expect. We've had a really good response since it opened."

- MEG SHERWOOD,
SPA MANAGER
SYCUAN RESORT

drainage and irrigation. Driving ranges anchor the west and east ends, with putting and chipping areas in between.

(760) 438-9111 or www.lacosta.com.

THE CROSSINGS AT CARLSBAD PLANS SUMMER DEBUT

The Crossings at Carlsbad, a Greg Nash-designed golf course with dramatic elevation changes and ocean views from many holes, is scheduled to open this summer.

Since the property is within a coastal zone surrounded by protected habitat, the course is designed to preserve the natural habitat while also promoting tourism.

"The Crossings at Carlsbad fulfills a desire by city officials to provide a world-class golf experience for the resi-

dents of Carlsbad, while operating the type of facility that will attract golfers from great distances," said Carlsbad Mayor Claude A. Lewis. "The name of the golf course is derived from five distinctive crossings integral to the golf course, including a dramatic crossing of a natural gorge on the back nine."

KemperSports Management will operate the facility.

(760) 476-9933 or www.thecrossingsatcarlsbad.com.

SYCUAN RESORT & CASINO ADDS SPA TO AMENITIES

The Sycuan Resort & Casino is complementing its two "g"s — golf and gambling — with a pair of "r"s — rest and relaxation, thanks to a spa that opened at the El Cajon facility in October.

"Having a spa is an amenity resort guests have come to expect. We've had a really good response since it opened," said spa manager Meg Sherwood.

The Sycuan Resort also offers 54 holes of golf, and the property has been boosted by the remodeling of the restaurant and Echo's Lounge, which now features LCD televisions.

"It's a significant upgrade from what our lounge was before," said Rick Tibbitts, the resort's director of sales.

The golf facility was recently recognized as Best Golf Course in the readers' poll of SignOnSanDiego.com for the third year in a row.

"It's an honor we're quite proud of," Tibbitts said. "[The courses] are as stunning as they've ever been."

(888) 556-2058 or www.sycuanresort.com.

SDRMA annual safety awards

By Greg Hall, Special District Risk Management Authority

SDRMA safety awards for 2006 were presented during the annual CSDA conference in recognition of the safety efforts of some of our members in both the Property/Liability and Workers' Compensation programs. This is just one of the ways SDRMA recognizes its members for outstanding achievements and dedication to safety. These districts continue to work hard incorporating safety management practices into their daily operations. Their partnerships with SDRMA reduce not only their district's claims and premiums through their tremendous loss prevention efforts but also improve the overall programs and rates for all SDRMA pool members. Congratulations and thank you for your excellent safety efforts!

This is just one of the ways SDRMA recognizes its members for outstanding achievements and dedication to safety.

Earl F. Sayre Excellence in Safety Award

There are currently 395 members in the Property/Liability program. This award recognizes the valuable safety contributions of the following members:

Property/Liability Program Small Member: Great Basin Unified Air Pollution

Control District has been a member of our property/liability program since 1986. The district earned a maximum total of 15 CIPs for the 2005-2006 program year. Their loss ratio is .03 and their losses over the last 5 years total \$7,226. The district participates in SDRMA's online safety training program and education day. Jim Allan, the district's Administrative Services Officer, accepted the award on the district's behalf.



Property/Liability Program Large Member: Otay Water District has been a member of our property/liability program since 2003. The District earned a total of 15 CIPs for the 2005-2006 program year. Their loss ratio is .20 and they have an aggressive safety management/loss prevention program. The district participates in SDRMA's on-line safety training program and education day. Board member Gary Croucher and Safety & Risk Administrator Dave Burpeau accepted the award on behalf of their district.

McMurchie Excellence in Safety Award

There are currently 337 members in the Workers' Compensation program and this award recognizes the valuable safety contributions of the following members:

Workers' Compensation Program Small Member: Minter Field Airport District has been a member of our workers' compensation program since 1985. The District earned a total of 15 CIPs for the 2005-2006 program year. The district has an excellent experience modification rating of .82 and has no reported losses over the last 5 years. The district participates in SDRMA's online safety training program and education day. Dana "Zeke" Mulder, Board President, and Herman Ruddell, General Manager accepted the award on behalf of their district.

Workers' Compensation Program Large Member: Alameda County Water District has been a member of workers' compensation program since 2002. The district earned a total of 15 CIPs for the 2005-2006 program year. The district has an excellent experience modification rating of .74 and they have an aggressive safety management/loss prevention program. The district participates in SDRMA's online safety training program. Jerry Ledbetter, Safety and Health Officer, received the award on behalf of his district.