

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Special Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest and original issue discount with respect to the Certificates are excluded from gross income for federal income tax purposes and are not items of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, interest and original issue discount with respect to the Certificates are exempt from State of California personal income tax. Original issue discount with respect to a Certificate is the difference between the issue price of the Certificate (the first price at which a substantial amount of the Certificates of the same series and maturity is to be sold to the public) and the Certificate's stated redemption price at maturity. See "TAX EXEMPTION" herein with respect to other tax consequences with respect to the Certificates.

**NEW ISSUE — FULL BOOK ENTRY**

**Ratings: (See "Ratings" herein)**

**\$134,090,000**  
**EASTERN MUNICIPAL WATER DISTRICT**  
**Water and Sewer Revenue Certificates of Participation**  
**Series 2001A, Series 2001B and Series 2001C**  
**Evidencing and Representing Interests of the Owners Thereof**  
**in Installment Sale Payments to be Made by the**  
**Eastern Municipal Water District**  
**(Riverside County, California)**  
**As the Purchase Price for Certain Property Pursuant to**  
**Installment Sale Agreements With the**  
**Eastern Municipal Water District Facilities Corporation**  
**A California Public Benefit**  
**Non-Profit Corporation**

**\$68,735,000**  
**Water and Sewer Revenue Refunding**  
**Certificates of Participation**  
**Series 2001A**

**\$51,370,000**  
**Water and Sewer Revenue**  
**Certificates of Participation**  
**Series 2001B**

**\$13,985,000**  
**Water and Sewer Revenue Refunding**  
**Certificates of Participation**  
**Series 2001C**

**Dated: March 15, 2001**

**Due: July 1, as shown on the inside front cover**

Interest represented by the 2001A, 2001B and 2001C Certificates accrue from their dated date and is payable on July 1, 2001 and semiannually thereafter on January 1 and July 1 of each year. The 2001A, 2001B and 2001C Certificates will be prepared as fully registered Certificates and, when delivered, will be registered in the name of CEDE & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the 2001A, 2001B and 2001C Certificates. Purchasers of beneficial interests will not receive printed certificates representing their interest in the 2001A, 2001B and 2001C Certificates. So long as CEDE & Co. is the registered owner of the 2001A, 2001B and 2001C Certificates, as nominee of DTC, references herein to the registered owners shall mean CEDE & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2001A, 2001B and 2001C Certificates. See APPENDIX D — Book-Entry-Only System herein. Individual purchases of the 2001A, 2001B and 2001C Certificates will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof. Principal and interest are payable directly to DTC by U.S. Trust Company National Association, as Trustee. Upon receipt of payments of principal and interest, DTC is to remit such principal and interest to the DTC Participants (as such term is herein defined) for subsequent disbursement to the beneficial owners of the 2001A, 2001B and 2001C Certificates.

**The 2001A, 2001B and 2001C Certificates are subject to optional and mandatory prepayment prior to maturity as described herein.**

The 2001A Certificates are being executed and delivered to finance the prepayment of the District's outstanding 1991A Certificates, to pay the municipal bond insurance policy premium for the 2001A Certificates, and to pay the costs of issuing the 2001A Certificates, all as described herein. The 2001B Certificates are being executed and delivered to finance the 2001B Project, to pay the municipal bond insurance policy premium for the 2001B Certificates, to fund a debt service reserve fund established for the 2001B Certificates, and to pay the costs of issuing the 2001B Certificates, all as described herein. The 2001C Certificates are being executed and delivered to finance the prepayment of a portion of the District's outstanding 1993A Certificates, to pay the municipal bond insurance policy premium for the 2001C Certificates, and to pay the costs of issuing the 2001C Certificates, all as described herein.

**The obligation of the District to make the Installment Sale Payments described herein is a limited obligation of the District payable solely from Net Water and Sewer Revenues of the District's Water and Sewer System; and neither the full faith and credit nor the taxing power of the District, the County of Riverside, the State of California or any of its political subdivisions is pledged for the payment thereof.**

The payment of the principal and interest with respect to the 2001A, 2001B and 2001C Certificates when due will be insured by a municipal bond insurance policy to be issued by Financial Guaranty Insurance Company simultaneously with the delivery of the 2001A, 2001B and 2001C Certificates.

 **Financial Guaranty Insurance  
Company**

FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

The 2001A, 2001B and 2001C Certificates are offered when, as and if executed and delivered to the Underwriter, subject to the approval of certain matters by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. Certain matters will be passed upon for the Underwriter by O'Melveny & Myers LLP, and for the District by Redwine & Sherrill, Riverside, California. It is expected that the 2001A, 2001B and 2001C Certificates in book-entry form will be available for delivery in New York, New York on or about April 4, 2001.

**UBS PaineWebber Inc.**

Dated March 21, 2001

**\$68,735,000**  
**Water and Sewer Revenue Refunding Certificates of Participation**  
**Series 2001A**

\$68,735,000 Serial Certificates

Payment Date (July 1)	Principal Amount	Interest Rate	Yield	CUSIP	Payment Date (July 1)	Principal Amount	Interest Rate	Yield	CUSIP
2002	2,345,000	4.000%	3.000%	276771DZ2	2012	3,610,000	5.250%	4.250%	276771EL2
2003	2,440,000	4.500%	3.200%	276771EA6	2013	3,800,000	5.250%	4.350%	276771EN8
2004	2,550,000	5.000%	3.350%	276771EB4	2014	3,000,000	5.375%	4.450%	276771EP3
2005	2,680,000	3.400%	3.450%	276771EC2	2014	1,000,000	4.400%	4.450%	276771EQ1
2006	2,770,000	3.500%	3.570%	276771ED0	2015	505,000	4.500%	4.550%	276771ER9
2007	2,865,000	5.250%	3.700%	276771EE8	2015	3,700,000	5.250%	4.550%	276771ES7
2008	3,020,000	5.000%	3.820%	276771EF5	2016	4,420,000	5.375%	4.630%	276771ET5
2009	3,165,000	4.000%	3.920%	276771EG3	2017	4,660,000	5.375%	4.700%	276771EU2
2010	2,790,000	4.000%	4.000%	276771EH1	2018	4,910,000	5.000%	4.800%	276771EV0
2010	500,000	5.250%	4.000%	276771EJ7	2019	5,155,000	5.000%	4.850%	276771EW8
2011	3,435,000	5.250%	4.150%	276771EK4	2020	5,415,000	5.000%	4.900%	276771EX6

**\$51,370,000**  
**Water and Sewer Revenue Certificates of Participation**  
**Series 2001B**

\$51,370,000 5.000% Term Certificates due July 1, 2030 Yield 5.080% CUSIP: 276771EY4  
(P~~l~~us Accrued Interest)

**\$13,985,000**  
**Water and Sewer Revenue Refunding Certificates of Participation**  
**Series 2001C**

\$13,985,000 Serial Certificates

Payment Date (July 1)	Principal Amount	Interest Rate	Yield	CUSIP	Payment Date (July 1)	Principal Amount	Interest Rate	Yield	CUSIP
2002	100,000	4.000%	3.000%	276771EZ1	2008	1,455,000	4.000%	3.820%	276771FF4
2003	105,000	4.000%	3.200%	276771FA5	2009	1,515,000	4.000%	3.920%	276771FG2
2004	110,000	4.000%	3.350%	276771FB3	2010	1,570,000	4.000%	4.000%	276771FH0
2005	1,290,000	4.000%	3.450%	276771FC1	2011	1,635,000	4.000%	4.150%	276771FJ6
2006	1,340,000	4.000%	3.570%	276771FD9	2012	1,700,000	4.250%	4.250%	276771FK3
2007	1,395,000	4.000%	3.700%	276771FE7	2013	1,770,000	4.250%	4.350%	276771FL1

No dealer, broker, salesperson or other person has been authorized by the Underwriter, the District, the Corporation or the Trustee to give any information or to make any representations 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 any of the foregoing.

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 such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction. This Official Statement is not to be construed as a contract with the purchasers or any of the owners of Certificates. Any statement made in this Official Statement involving estimates, forecasts or matters of opinion, whether or not expressly so stated, are intended solely as such and not as representations of fact. The information set forth herein has been furnished by the District, The Depository Trust Company, Financial Guaranty Insurance Company and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as representations by the Underwriter. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof.

In reliance upon exemptions contained in such acts, the Certificates have not been registered under the Securities Act of 1933, nor have the Trust Agreements been qualified under the Trust Indenture Act of 1939. The registration or qualification of the Certificates in accordance with applicable provisions of securities laws of any state in which the Certificates have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation. Neither those states nor any of their agencies have passed upon the merits of the Certificates or the accuracy or completeness of this Official Statement.

**IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

**EASTERN MUNICIPAL WATER DISTRICT**

2270 Trumble Road  
P.O. Box 8300  
Perris, California 92572-8300

**BOARD OF DIRECTORS AND OFFICERS OF THE DISTRICT**

Rodger D. Siems, President  
Richard R. Hall, Vice President  
Marion V. Ashley, Director  
Randy A. Record, Director  
David J. Slawson, Director  
Mary C. White, Board Secretary

**BOARD OF DIRECTORS AND OFFICERS OF THE CORPORATION**

Marion V. Ashley, President  
Rodger D. Siems, 1st Vice President  
Randy A. Record, 2nd Vice President  
David J. Slawson, 3rd Vice President/Secretary  
Richard R. Hall, 4th Vice President/Treasurer  
Mary C. White, Board Secretary

**DISTRICT STAFF**

John B. Brudin, General Manager  
Anthony J. Pack, Deputy General Manager of Operations and Administration  
Charles J. Bachmann, Assistant General Manager, Engineering  
Parameshwaran Ravishanker, Assistant General Manager, Resource Development  
Redwine & Sherrill, Legal Counsel  
Mary C. White, Board Secretary  
Charles E. Rathbone, Jr., Director of Finance  
Joseph J. Kuebler, CPA, Treasurer

**SPECIAL COUNSEL**

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

**TRUSTEE**

U.S. Trust Company National Association  
Los Angeles, California

**FINANCIAL ADVISOR**

Fieldman, Rolapp & Associates  
Irvine, California

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**OFFICIAL STATEMENT**

**\$134,090,000**

**EASTERN MUNICIPAL WATER DISTRICT  
Water and Sewer Revenue Certificates of Participation  
Series 2001A, Series 2001B and Series 2001C  
Evidencing and Representing Interests of the Owners Thereof  
in Installment Sale Payments to be Made by the  
Eastern Municipal Water District  
(Riverside County, California)  
As the Purchase Price for Certain Property Pursuant to  
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A California Public Benefit  
Non-Profit Corporation**

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Certificates of Participation  
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**\$51,370,000  
Water and Sewer Revenue  
Certificates of Participation  
Series 2001B**

**\$13,985,000  
Water and Sewer Revenue Refunding  
Certificates of Participation  
Series 2001C**

**INTRODUCTION**

This Official Statement, including the cover page and Appendices hereto, is provided to furnish certain information in connection with the offering of \$68,735,000 aggregate principal amount of Water and Sewer Revenue Refunding Certificates of Participation, Series 2001A (the "2001A Certificates"), \$51,370,000 aggregate principal amount of Water and Sewer Revenue Certificates of Participation, Series 2001B (the "2001B Certificates"), and \$13,985,000 aggregate principal amount of Water and Sewer Revenue Refunding Certificates of Participation, Series 2001C (the "2001C Certificates"; and together with the 2001A Certificates and 2001B Certificates, the "Certificates" or the "2001 Certificates"). The 2001A, 2001B and 2001C Certificates represent the interests of the registered owners thereof in payments (the "1991A Installment Sale Payments", the "2001B Installment Sale Payments" and the "1993A Installment Sale Payments," respectively, and collectively, the "Installment Sale Payments") to be made by the Eastern Municipal Water District (the "District"), a municipal water district organized and existing in accordance with the Municipal Water District Law, Division 20 of the Water Code of the State of California, as amended (the "Law"), pursuant to the 1991A Installment Sale Agreement, dated as of June 1, 1991, as amended (the "1991A Installment Sale Agreement"), pursuant to the 2001B Installment Sale Agreement, dated as of April 1, 2001 (the "2001B Installment Sale Agreement") and pursuant to the 1993A Installment Sale Agreement, dated as of May 1, 1993, as amended (the "1993A Installment Sale Agreement"; and together with the 1991A Installment Sale Agreement and the 2001B Installment Sale Agreement, the "Installment Sale Agreements"), respectively, each by and between the District and the Eastern Municipal Water District Facilities Corporation, a California non-profit public benefit corporation (the "Corporation").

A portion of the proceeds of the 2001A Certificates will be used to provide moneys for the purpose of the prepayment of the 1991A Certificates (as hereinafter defined) maturing July 1 in the years 2001 through 2020, inclusive. A portion of the proceeds of the 2001B Certificates will be used to provide moneys for the purpose of financing the cost of design, acquisition and construction of certain capital improvements (the "2001B Project") in the District's Water and Sewer System (as defined in the Master Resolution)(including reimbursements to the District for certain prior expenditures made in respect of the 2001B Project). A portion of the proceeds of the 2001C Certificates will be used to provide moneys for the purpose of the prepayment of the 1993A Certificates (as hereinafter defined) maturing July 1 in the years 2005 through 2013, inclusive. The remainder of the proceeds of the Certificates will be used to (a) pay the municipal bond insurance policy premium for the Certificates, (b) to fund debt service reserve funds established for the Certificates and (c) to pay the costs of issuing the Certificates.

The 2001A Certificates will be delivered pursuant to a Trust Agreement, dated as of June 1, 1991, as supplemented and amended by the First Supplement to Trust Agreement, dated as of April 1, 1997, and by the Second Supplement to Trust Agreement, dated as of April 1, 2001 (the "1991A Trust Agreement"), by and among the District, the Corporation and U.S. Trust Company National Association, as trustee (the "Trustee" or the "1991A Trustee"). Pursuant to the 1991A Trust Agreement, the Corporation assigned to the Trustee, for the benefit of the

registered owners of the 1991A Certificates, the 1997A Certificates (as hereinafter defined) and the 2001A Certificates, all of its rights to receive the 1991A Installment Sale Payments and certain other rights and interests of the Corporation in the 1991A Installment Sale Agreement. Under the 1991A Trust Agreement, the 1991A Trustee executed and delivered (i) on June 27, 1991, \$99,995,000 aggregate principal amount of Water and Sewer Revenue Refunding Certificates of Participation, Series 1991A (the "1991A Certificates"), and (ii) on July 10, 1997, \$21,835,000 aggregate principal amount of Water and Sewer Revenue Refunding Certificates of Participation, Series 1997A (the "1997A Certificates"), each evidencing and representing interests of the owners thereof in the 1991A Installment Sale Payments to be made by the District under the 1991A Installment Sale Agreement. The District entered into the 1991A Installment Sale Agreement for the principal purpose of prepaying certain obligations in order to realize cost savings.

The 2001B Certificates will be delivered pursuant to a Trust Agreement, dated as of April 1, 2001 (the "2001B Trust Agreement"), by and among the District, the Corporation and U.S. Trust Company National Association, as trustee (the "Trustee" or the "2001B Trustee"). Pursuant to the 2001B Trust Agreement, the Corporation will assign to the Trustee, for the benefit of the registered owners of the 2001B Certificates, all of its rights to receive the 2001B Installment Sale Payments and certain other rights and interests of the Corporation in the 2001B Installment Sale Agreement.

The 2001C Certificates will be delivered pursuant to a Trust Agreement, dated as of May 1, 1993, as supplemented and amended by the First Supplement to Trust Agreement, dated as of April 1, 2001 (the "1993A Trust Agreement"), by and among the District, the Corporation and U.S. Trust Company National Association, as trustee (the "Trustee" or the "1993A Trustee"). Pursuant to the 1993A Trust Agreement, the Corporation assigned to the Trustee, for the benefit of the registered owners of the 1993A Certificates and the 2001C Certificates, all of its rights to receive the 1993A Installment Sale Payments and certain other rights and interests of the Corporation in the 1993A Installment Sale Agreement. Under the 1993A Trust Agreement, the Trustee executed and delivered on May 26, 1993 \$46,340,000 aggregate principal amount of Water and Sewer Revenue Certificates of Participation, Series 1993A (the "1993A Certificates"), evidencing and representing interests of the owners thereof in the 1993A Installment Sale Payments to be made by the District under the 1993A Installment Sale Agreement. The District entered into the 1993A Installment Sale Agreement for the principal purpose of financing the cost of the design, acquisition and construction of certain improvements (the "1993A Project") to the District's Water and Sewer System.

The 1991A Trust Agreement, the 2001B Trust Agreement and the 1993A Trust Agreement are herein collectively referred to as the "Trust Agreements." The Corporation shall not have any obligation or liability to the owners of the Certificates with respect to the District's performance of its obligations under the Installment Sale Agreements or the Trust Agreements.

The Installment Sale Payments are payable solely from Net Water and Sewer Revenues (as defined hereinafter). On March 20, 1991, the District adopted its Resolution No. 2667, entitled "A Resolution of the Board of Directors of the Eastern Municipal Water District Providing for the Allocation of Water and Sewer System Revenues and Establishing Covenants to Secure the Payments of Obligations Payable from Net Water and Sewer Revenues" (the "Master Resolution"). Subsequently, on May 13, 1993, the First Supplemental Master Resolution No. 2667.1 was adopted by the District, which redefined "current water and sewer revenues." The District's obligation to make the Installment Sale Payments from Net Water and Sewer Revenues is absolute and unconditional and the District has covenanted to continue such payments whether or not the facilities financed by the Installment Sale Agreements are operating or operable. Such payments are not subject to annual appropriation or abatement in the event of loss or destruction. A debt service reserve fund for the 2001A Certificates and the 1997A Certificates has been established under the 1991A Trust Agreement in the amount of \$7,294,537.50, which amount gives effect to the issuance of the 2001A Certificates and the refunding of the 1991A Certificates as described herein, a debt service reserve fund for the 2001B Certificates has been established in the initial amount of \$5,098,534.66, and a debt service reserve fund for the 1993A Certificates and the 2001C Certificates has been established under the 1993A Trust Agreement in the amount of \$3,140,287.50 which amount gives effect to the issuance of the 2001C Certificates and the refunding of a portion of the 1993A Certificates as described herein, each representing the respective Debt Service Reserve Fund Requirements (as defined herein). (See, **SECURITY AND SOURCES OF PAYMENT - Debt Service Reserve Fund** for information relating to the calculation of the respective Debt Service Reserve Fund Requirements for the Installment Sale Agreements.) The District has no obligations or indebtedness outstanding which are senior to the Installment Sale Payments with respect to payment from Net Water and Sewer Revenues.



Payment of the principal and interest with respect to the Certificates when due will be insured by a municipal bond insurance policy to be provided by Financial Guaranty Insurance Company simultaneously with the delivery of the Certificates. (See, **CERTIFICATE PAYMENT INSURANCE.**)

The Certificates will be executed and delivered in book-entry form only. Interest with respect to the Certificates is payable to the registered owners as of the Regular Record Date on January 1 and July 1 in each year, commencing July 1, 2001. The Certificates will be subject to prepayment prior to maturity, including optional prepayment in whole or in part and mandatory prepayment in whole or in part, as more fully described herein. (See, **THE CERTIFICATES.**)

On March 28, 1991 and February 5, 1998, U.S. Trust Company National Association as trustee (the "Trustee" or the "1991 Trustee") under a certain Trust Agreement, dated as of March 15, 1991, as amended by First Supplement to Trust Agreement, dated as of January 15, 1998 (the "1991 Trust Agreement"), executed and delivered \$128,690,000 aggregate principal amount of Water and Sewer Revenue Certificates of Participation, Series 1991 (the "1991 Certificates") and \$39,655,000 aggregate principal amount of Water and Sewer Revenue Refunding Certificates of Participation, Series 1998A (the "1998A Certificates"), respectively, evidencing and representing interests in the owners thereof in installment payments (the "1991 Installment Sale Payments") to be made by the District under the 1991 Installment Sale Agreement, dated as of March 15, 1991, as amended by First Amendment to 1991 Installment Sale Agreement, dated as of January 15, 1998 (the "1991 Installment Sale Agreement"). Pursuant to the 1991 Trust Agreement, the Corporation assigned to the Trustee, for the benefit of the registered owners of the 1991 Certificates and the 1998A Certificates, all of its rights to receive the 1991 Installment Sale Payments and certain other rights and interests of the Corporation in the 1991 Installment Sale Agreement.

On May 26, 1993, U.S. Trust Company National Association, as trustee (the "Trustee" or "1993B Trustee") under a certain trust agreement dated as of May 1, 1993 (the "1993B Trust Agreement"), executed and delivered \$65,795,000 aggregate principal amount of Water and Sewer Revenue Refunding Certificates of Participation, Series 1993B (the "1993B Certificates") evidencing and representing interests of the owners thereof in installment payments (the "1993B Installment Payments") to be made by the District as the purchase price for certain property pursuant to a 1993B Installment Sale Agreement, dated as of May 1, 1993 (the "1993B Installment Sale Agreement") with the Corporation. The District entered into the 1993B Installment Sale Agreement for the principal purpose of prepaying certain of the 1991 Installment Payments in order to realize costs savings. The 1993B Certificates are variable rate certificates which, until converted to a fixed interest rate, bear interest at a weekly interest rate. However, 1993B Installment Sale Payments currently being made by the District have been fixed pursuant to the terms of an interest rate swap agreement (the "Swap Agreement") entered into simultaneously with the execution and delivery of the 1993B Certificates. Pursuant to the 1993B Installment Sale Agreement, 1993B Installment Sale Payments are required to be sufficient to meet the District's payment obligations with regard to principal and interest represented by the 1993B Certificates, payments by the District pursuant to the Swap Agreement and payment obligations of the District pursuant to other contractual obligations incurred in connection with the 1993B Certificates. (See, **THE DISTRICT - Debt Structure of the District - The 1993B Certificates and Related Obligations**, for a description of the obligations of the District in connection with the 1993B Certificates.)

The District's obligation to make the 1991 Installment Sale Payments and the 1993B Installment Payments is on a parity with the 1991A Installment Sale Payments, 2001B Installment Sale Payments, and 1993A Installment Sale Payments with respect to payment from Net Water and Sewer Revenues. In addition, under the 1991A Trust Agreement, the 2001A Certificates are on a parity with the 1997A Certificates with respect to payment from the 1991A Installment Sale Payments. Under the 1993A Trust Agreement, the 2001C Certificates are on a parity with the 1993A Certificates with respect to payment from the 1993A Installment Sale Payments. (See, **THE DISTRICT - Debt Structure of the District** for a description of the District's outstanding indebtedness.)

**The obligation of the District to make the Installment Sale Payments is a limited obligation payable solely from Net Water and Sewer Revenues; and neither the full faith and credit nor the taxing power of the District, the County of Riverside, the State of California or any of its political subdivisions is pledged for the payment thereof.**

Brief descriptions of the Certificates, the security and sources of payment for the Certificates and the District and its Capital Improvement Program are provided herein. Such descriptions do not purport to be comprehensive or definitive. Definitions of certain capitalized terms used herein may be found in **APPENDIX C — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Certain Definitions**. All references made to various

documents herein are qualified in their entirety by reference to the forms thereof, all of which are available for inspection at the office of the Director of Finance of the District (see address on the inside cover of this Official Statement).

## CONTINUING DISCLOSURE

Pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934, the District has undertaken for the benefit of holders and beneficial owners of the Certificates to provide certain on-going financial information and operating data (the "Annual Information") relating to the District, and to provide notices of the occurrence of certain enumerated events with respect to the Certificates, if material. The Annual Information relating to the District is to be provided annually not later than 180 days following the end of such Fiscal year, beginning with the Fiscal year ending June 30, 2001. The Annual Information will be filed by or on behalf of the District with each Nationally Recognized Municipal Securities Information Repository (the "NRMSIRS") and with the State Depository for the State of California, if any (the "State Depository"). The current NRMSIRS are Bloomberg Municipal Repositories, P.O. Box 840, Princeton, NJ 08542-0840, DPC Data Inc., One Executive Drive, Fort Lee, NJ 07024, Interactive Data, Attn: Repository, 100 Williams Street, New York, NY 10038 and Standard & Poor's J.J. Kenny Repository, 55 Water Street, 45<sup>th</sup> Floor, New York, NY 10041. At this time, there is no State Depository. Notices of the aforesaid material events will be filed by or on behalf of the District with the NRMSIRS or the Municipal Securities Rulemaking Board (the "MSRB") and with the State Depository. The nature of the information to be provided in the Annual Information and the notices of such material events is set forth in "**APPENDIX C — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Summary of Certain Provisions of the 1991A Trust Agreement, Summary of Certain Provisions of the 2001B Trust Agreement and Summary of Certain Provisions of the 1993A Trust Agreement - Continuing Disclosure.**"

## THE 2001B PROJECT AND THE REFUNDING PLAN

### Second 1991A Escrow Agreement

A portion of the proceeds received from the sale of the 2001A Certificates will be used to establish an irrevocable escrow (the "Second 1991A Escrow Fund") held by the 1991A Trustee, as escrow bank (the "1991A Escrow Bank"), pursuant to an Escrow Agreement, dated as of April 1, 2001 (the "Second 1991A Escrow Agreement"), by and among the District, the Corporation and the 1991A Escrow Bank. Moneys on deposit in the Second 1991A Escrow Fund will be invested in direct obligations of, or obligations unconditionally guaranteed by, the United States Government (the "1991A Escrow Securities"), the interest and principal payments from which shall secure and provide funds for the District's payments due on July 1, 2001 under the 1991A Installment Sale Agreement (representing the principal of the 1991A Certificates maturing July 1, 2001 and the interest with respect to the 1991A Certificates maturing July 1, 2001 through 2020, inclusive). Such respective amounts will be applied: (a) to the principal of the 1991A Certificates maturing July 1, 2001; (b) to the interest due on July 1, 2001 with respect to the 1991A Certificates maturing July 1, 2001 through 2020, inclusive; and (c) to optionally prepay on July 1, 2001 the 1991A Certificates maturing July 1, 2002 through 2020, inclusive. (See, **VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS.**)

Establishment of the Second 1991A Escrow Fund will operate to defease the 1991A Certificates maturing July 1, 2001 through 2020, inclusive. The owners of the 1991A Certificates maturing July 1, 2001 through 2020, inclusive, will remain the owners of an undivided interest in the payments due under the 1991A Installment Sale Agreement, but only out of the moneys and securities on deposit in the Second 1991A Escrow Fund. The 1991A Escrow Bank is irrevocably committed: (a) to make payments of that portion of the District's payments due on July 1, 2001 under the 1991A Installment Sale Agreement and relating to the 1991A Certificates maturing July 1, 2001 through 2020, inclusive; and (b) to cause the prepayment on July 1, 2001 of the District's payments due July 1, 2002 through July 1, 2020, inclusive, together with interest accrued as of that date, under the 1991A Installment Sale Agreement and relating to the 1991A Certificates maturing July 1, 2001 through 2020, inclusive.

## **2001B Project**

The District is entering into the 2001B Installment Sale Agreement to provide, among other things, for financing the cost of the design, acquisition and construction of the 2001B Project. The 2001B Project includes, among others, the following capital improvements to the District's Water and Sewer System: (i) the construction of improvements to the Moreno Valley Regional Water Reclamation Facility (MVRWRF) and appurtenances thereto; (ii) the construction of improvements to the Sanderson Lift Station and appurtenances thereto; (iii) the construction of the Perris Water Treatment Plant and appurtenances thereto; and (iv) the construction of the Menifee Desalter Plant and appurtenances thereto. (See, **THE CAPITAL IMPROVEMENT PROGRAM – Description of 2001B Project.**)

### **First 1993A Escrow Agreement**

A portion of the proceeds received from the sale of the 2001C Certificates will be used to establish an irrevocable escrow (the "First 1993A Escrow Fund") held by the 1993A Trustee, as escrow bank (the "1993A Escrow Bank"), pursuant to an Escrow Agreement, dated as of April 1, 2001 (the "First 1993A Escrow Agreement"), by and among the District, the Corporation and the 1993A Escrow Bank. Moneys on deposit in the First 1993A Escrow Fund will be invested in direct obligations of, or obligations unconditionally guaranteed by, the United States Government (the "1993A Escrow Securities"), the interest and principal payments from which shall secure and provide funds for: (a) a portion of the District's Installment Sale Payments due on and prior to July 1, 2003 under the 1993A Installment Sale Agreement (representing the interest with respect to the 1993A Certificates maturing July 1, 2005 through 2013, inclusive) and (b) the District's optional prepayment on July 1, 2003 of the District's Installment Sale Payments due July 1, 2005 to 2013, inclusive, under the 1993A Installment Sale Agreement. Such respective amounts will be applied: (a) to the interest due on and prior to July 1, 2003 with respect to the 1993A Certificates maturing July 1, 2005 through 2013, inclusive; and (b) to optionally prepay on July 1, 2003 the 1993A Certificates maturing July 1, 2005 through 2013, inclusive. (See, **VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS.**)

Establishment of the First 1993A Escrow Fund will operate to defease the 1993A Certificates maturing July 1, 2005 through 2013, inclusive. The owners of the 1993A Certificates maturing July 1, 2005 through 2013, inclusive, will remain the owners of an undivided interest in the payments due under the 1993A Installment Sale Agreement, but only out of the moneys and securities on deposit in the First 1993A Escrow Fund. The 1993A Escrow Bank is irrevocably committed: (a) to make payments of that portion of the District's payments due on and prior to July 1, 2003 under the 1993A Installment Sale Agreement (representing the interest with respect to the 1993A Certificates maturing July 1, 2005 through 2013, inclusive); and (b) to cause the prepayment on July 1, 2003 of the District's payments due July 1, 2005 through July 1, 2013, inclusive, under the 1993A Installment Sale Agreement and relating to the 1993A Certificates maturing July 1, 2005 through 2013, inclusive.

## THE CERTIFICATES

The following is a summary of certain provisions of the Certificates. Reference is made to the Trust Agreements for the complete provisions thereof, and the discussion herein is qualified in its entirety by such reference.

### General

The Certificates will be dated March 15, 2001. The 2001A Certificates, 2001B Certificates and 2001C Certificates will be executed and delivered in the aggregate principal amount of \$68,735,000, \$51,370,000, and \$13,985,000, respectively as fully registered Certificates in the name of CEDE & Co., nominee of The Depository Trust Company, New York, New York ("DTC"), as registered owner of all Certificates. The principal of and interest with respect to the Certificates will be paid directly to CEDE & Co. by the Trustee as long as DTC or its nominee, CEDE & Co. is the registered owner of the Certificates. For information relating to DTC and the DTC book-entry system as it relates to the Certificates, *see*, **APPENDIX D — BOOK-ENTRY-ONLY SYSTEM.**

Interest with respect to the Certificates will be payable at the rates set forth on the cover page of this Official Statement on January 1 and July 1 of each year, commencing July 1, 2001. Principal with respect to the Certificates will be payable on July 1 in each of the years, and in the amounts, set forth on the inside cover page of this Official Statement unless paid through mandatory sinking fund payments as hereinafter described or upon prior prepayment.

### Mandatory Sinking Fund Payments

2001A Certificates. The 2001A Certificates are not subject to mandatory sinking fund payments.

2001B Certificates. The 2001B Certificates maturing on July 1, 2030 are subject to mandatory prepayment prior to such Certificate Payment Date, in part by lot on the dates shown on the following schedule, in integral multiples of \$5,000, solely from the principal components of scheduled 2001B Installment Sale Payments becoming due on such dates, at a price equal to the sum of the principal amount evidenced and represented by the 2001B Certificates to be prepaid plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

<u>Term Certificates</u> <u>Maturing July 1, 2030</u>	<u>Principal Amount</u>
2024	\$6,310,000
2025	6,625,000
2026	6,955,000
2027	7,305,000
2028	7,670,000
2029	8,050,000
2030*	8,455,000

\*Stated Maturity

2001C Certificates. The 2001C Certificates are not subject to mandatory sinking fund payments.

## **Optional Prepayments**

2001A Certificates. The 2001A Certificates with Certificate Payment Dates on or after July 1, 2012, are subject to optional prepayment, representing prepaid 1991A Installment Sale Payments, by the District prior to their Certificate Payment Dates, on any date on or after July 1, 2011, as a whole, or in part (and, if in part, the particular maturities or portions of a maturity to be determined by the District in its discretion), in integral multiples of \$5,000, from any source of available funds, at a prepayment price equal to the sum of the principal amount of the 2001A Certificates to be prepaid, plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

If less than an entire maturity of 2001A Certificates are to be so redeemed, the particular 2001A Certificates to be redeemed will be selected by lot.

2001B Certificates. The 2001B Certificates are subject to optional prepayment, representing prepaid 2001B Installment Sale Payments, by the District prior to their Certificate Payment Date, on any date on or after July 1, 2011, as a whole, or in part (and, if in part, the particular maturities or portions of a maturity to be determined by the District in its discretion), in integral multiples of \$5,000, from any source of available funds, at a prepayment price equal to the sum of the principal amount of the 2001B Certificates to be prepaid, plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

If less than an entire maturity of 2001B Certificates are to be so redeemed, the particular 2001B Certificates to be redeemed will be selected by lot.

2001C Certificates. The 2001C Certificates with Certificate Payment Dates on or after July 1, 2012, are subject to optional prepayment, representing prepaid 1993A Installment Sale Payments, by the District prior to their Certificate Payment Dates, on any date on or after July 1, 2011, as a whole, or in part (and, if in part, the particular maturities or portions of a maturity to be determined by the District in its discretion), in integral multiples of \$5,000, from any source of available funds, at a prepayment price equal to the sum of the principal amount of the 2001C Certificates to be prepaid, plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

If less than an entire maturity of 2001C Certificates are to be so redeemed, the particular 2001C Certificates to be redeemed will be selected by lot.

## **Optional Prepayment From Insurance or Condemnation Proceeds**

The Certificates are subject to optional prepayment by the District on any date prior to their Certificate Payment Dates, as a whole, or in part (and, if in part, the particular maturities or portions of a maturity within a series of Certificates to be determined by the District in its discretion), in integral multiples of \$5,000, from proceeds of insurance awards or condemnation proceedings received by the District in connection with the damage, destruction or condemnation of all or any portion of the Water and Sewer System, at a prepayment price equal to the sum of the principal amount or such part thereof evidenced and represented by the Certificates to be prepaid, plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

## **Other Prepayment Provisions**

Notice. Notice of prepayment of any Certificate will be mailed, not less than 30 nor more than 60 days prior to the prepayment date, to the registered owner thereof. So long as the DTC Book-Entry System (as defined in **APPENDIX D — BOOK-ENTRY-ONLY SYSTEM**) is used, such notice shall be mailed to CEDE & Co., as nominee of DTC and the delivery of such notice is solely the responsibility of DTC. Any failure to receive such notice or any immaterial defect contained therein shall not affect the validity of the proceedings for the prepayment of such Certificate.

Effect of Prepayment. From and after the date so designated for prepayment, the interest represented by the Certificates so called for prepayment will cease to accrue, and such Certificates will cease to be entitled to any benefit or security under the 1991A Trust Agreement, 2001B Trust Agreement or 1993A Trust Agreement, as applicable, and the registered owners of such Certificates will have no rights in respect thereof except to receive payment of the prepayment price represented thereby.

## SECURITY AND SOURCES OF PAYMENT

Capitalized terms used herein and not otherwise defined shall have the meanings set forth in **APPENDIX C — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Certain Definitions.**

### **Installment Sale Payments**

Pursuant to the Installment Sale Agreements, the District is obligated to make Installment Sale Payments, solely from Net Water and Sewer Revenues (as defined below), the combined totals of which 1991A Installment Sale Payments are in amounts equal to the principal and interest components of the 2001A Certificates and the Outstanding 1997A Certificates, 2001B Installment Sale Payments are in amounts equal to the principal and interest components of the 2001B Certificates, and 1993A Installment Sale Payments are in amounts equal to the principal and interest components of the 1993A Certificates and the 2001C Certificates. The obligation of the District to pay such Installment Sale Payments is absolute and unconditional, and until such time as the Installment Sale Payments have been paid in full (or provision for the payment thereof shall have been made pursuant to the Installment Sale Agreements), the District will not discontinue or suspend any Installment Sale Payment required to be paid by it under the Installment Sale Agreements when due, whether or not the project financed thereby or any part thereof is operating or operable, or its use is suspended, interfered with, reduced, curtailed or terminated in whole or in part, and such payments will not be subject to reduction whether by offset, abatement or otherwise and will not be conditional upon the performance or nonperformance by any party to any agreement for any cause whatsoever.

Under the 1991A Trust Agreement, the 2001A Certificates are on a parity with the 1997A Certificates with respect to payment from the 1991A Installment Sale Payments. Under the 1993A Trust Agreement, the 2001C Certificates are on a parity with the 1993A Certificates with respect to payment from the 1993A Installment Sale Payments.

**The obligation of the District to make the Installment Sale Payments pursuant to the Installment Sale Agreements is a limited obligation of the District payable solely from Net Water and Sewer Revenues on a parity with other revenue obligations, including without limitation bonds, installment sale agreements, leases and contracts of indebtedness; and neither the full faith and credit nor the taxing power of the District, the County of Riverside, the State of California or any of its political subdivisions is pledged for the payment of the Installment Sale Payments.**

### **Net Water and Sewer Revenues**

Allocation of Water and Sewer Revenues. The Master Resolution provides for the allocation of Water and Sewer Revenues (defined hereinafter). Such provisions apply to the Installment Sale Agreements as well as to such other debts and obligations payable from Water and Sewer Revenues which are outstanding currently and as the District may issue or incur in the future, including without limitation water and sewer revenue bonds, installment sale agreements, leases and contracts of indebtedness.

The Master Resolution establishes seven special funds which are held by the District: a Water and Sewer Revenue Fund; a Rate Stabilization Fund; an Operating Fund; an Installment Payment Fund; an Operating Reserve Fund; a Subordinate Obligation Payment Fund; and a General Reserve Fund.

Water and Sewer Revenues: Current Water and Sewer Revenues. Under the Master Resolution, "Water and Sewer Revenues" generally include all gross income and revenue received or receivable by the District from its ownership and operation of the Water and Sewer System, including income derived from water and wastewater sales, standby charges, sewer service charges, water and sewer plant capacity charges, water and sewer back-up charges, water and sewer frontage charges, water and sewer fees, annexation charges and certain investment earnings. "Water and Sewer Revenues" also include amounts transferred to the Water and Sewer Revenue Fund from the Rate Stabilization Fund (see below). Amounts transferred from the Water and Sewer Revenue Fund to the Rate Stabilization Fund are excluded from Water and Sewer Revenues. Water and Sewer Revenues also exclude any proceeds of taxes and any refundable deposits made to establish credit, and advances or contributions in aid of construction, but do include benefit assessments to the extent the proceeds of such assessments legally may be pledged to pay revenue obligations of the District.

“Current Water and Sewer Revenues” include all gross income and revenue received or receivable by the District from its ownership and operation of the Water and Sewer System, which are required to be deposited initially in the Water and Sewer Revenue Fund, and also include certain income from deposit or investment of funds established under the Master Resolution and the Trust Agreements, as more fully set forth in the Master Resolution, but exclude any proceeds of taxes and any refundable deposits made to establish credit, and advances or contributions in aid of construction.

Rate Stabilization. In order to avoid fluctuations in its water and sewer rates, the District may transfer portions of its Current Water and Sewer Revenues from time to time to the Rate Stabilization Account, and from time to time transfer moneys from the Rate Stabilization Account to the Water and Sewer Revenue Account. It is expected that the amounts to be transferred into and out of the Rate Stabilization Account will be budgeted by the District on an annual basis in order to provide sufficient Water and Sewer Revenues to meet its capital improvement funding objectives and its covenant obligations under the Master Resolution. The District is currently contributing to the Rate Stabilization Account an amount equal to ten dollars (\$10.00) per acre foot of all retail sales of imported water.

Maintenance and Operation Costs. The District is required to pay all Maintenance and Operation Costs (and to set aside reasonable reserves therefor) from the Operating Fund as they become due. Such costs include all costs paid or incurred by the District for maintaining and operating the Water and Sewer System, determined in accordance with Generally Accepted Accounting Principles, plus all payments in respect of Maintenance and Operation Obligations (as defined below), as more fully set forth in the Master Resolution. Maintenance and Operation Costs exclude depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles, premiums and discounts, and interest expense. Also excluded are maintenance and operating costs paid from other than Water and Sewer Revenues, including, without limitation, costs paid from ad valorem property tax revenues. For additional information relating to the projected tax revenues which are expected to be used to pay maintenance and operation costs, *see*, **PROJECTED OPERATING RESULTS**.

The District may enter into contracts or leases with respect to the payment of certain maintenance and operating expenses. However, amounts paid pursuant to any contract or lease longer than five years (a “Maintenance and Operation Obligation”) shall be treated as Maintenance and Operation Costs only if the District determines at the time it enters into such Obligation that (a) the making of payments on such Obligation as Maintenance and Operation Costs will not impair its ability to comply with its rate covenant (hereinafter described) during the succeeding five Fiscal Years (or during the five years after the commercial operation date of the project being financed with such Obligation, if later), and (b) the properties, services or commodities to be furnished pursuant to such Obligation can be economically and beneficially utilized by the District. If these criteria cannot be met, amounts due under the Obligation shall be paid out of the Subordinate Obligation Payment Fund or the General Reserve Fund unless, at the time such Obligation is initially incurred the District demonstrates compliance with one of its tests for Additional Parity Obligations, in which event such amounts may be paid from the Installment Payment Fund (each hereinafter described).

Net Water and Sewer Revenues. Net Water and Sewer Revenues, the source of payment for the Installment Sale Payments and the Certificates, are defined by the Master Resolution to be, for any Fiscal Year, the Water and Sewer Revenues during such Fiscal Year less the Maintenance and Operation Costs during such Fiscal Year.

### **Pledge**

Pursuant to the Installment Sale Agreements, the District pledges its Net Water and Sewer Revenues and the amounts on deposit in or to the credit of the Installment Payment Fund established under the Master Resolution to secure prompt payment of the Installment Sale Payments, which in the case of the 1991A Installment Sale Payments include the principal and interest with respect to the 1997A Certificates and in the case of the 1993A Installment Sale Payments include the principal and interest with respect to the 1993A Certificates. Such pledge is not senior or superior to, but is on a parity with, the pledge of the Master Resolution to the payment of all Other Parity Obligations incurred in accordance with the Master Resolution.

## Flow of Funds

Water and Sewer Revenue Fund. Under the Master Resolution, all Current Water and Sewer Revenues are deposited initially in the Water and Sewer Revenue Fund. The Water and Sewer Revenue Fund also receives transfers from the Rate Stabilization Fund. (See, **Net Water and Sewer Revenues - Rate Stabilization**, above.)

Amounts in the Water and Sewer Revenue Fund are utilized to fund the Rate Stabilization Fund, to the extent determined by the District. Remaining amounts are to be set aside and deposited or transferred from the Water and Sewer Revenue Fund by the District, as the case may be, at the following times in the following order of priority:

- (a) Operating Fund. On or before the last Business Day of each month, the District shall deposit in the Operating Fund such amount as the District shall estimate is required, together with amounts then on deposit therein, to provide for the payment of Maintenance and Operation Costs estimated to be paid through the next month.
- (b) Installment Payment Fund. On or before the last Business Day of each month, the District shall deposit in the Installment Payment Fund, a sum equal to the Monthly Accrued Debt Service for such month, plus a sum equal to all Reimbursement Payments then due and payable, provided that no such deposit need be made if amounts on deposits in the Installment Payment Fund equal the amount of (i) Bond Payments and Installment Payments due with respect to all Bonds and Contracts on the next succeeding Interest Payment Date (with respect to interest) and Principal Payment Date (with respect to principal), (ii) Other Parity Obligations Payments due with respect to all Other Parity Obligations on the next succeeding Other Party Obligation Payment Date, and (iii) Reimbursement Payments then due and payable.
- (c) Bond or Contract or Other Parity Reserve Funds. On or before the last Business Day of each month, the District shall transfer to each trustee for deposit in the applicable Bond or Contract or Other Parity Reserve Fund an amount equal to the amount, if any, required to be deposited therein to build up or replenish such Bond or Contract or Other Parity Reserve Fund as and to the extent required by the applicable Contract or Trust Agreement or Other Parity Obligation.  
  
Debt service reserve funds have been established in connection with the Certificates. (See, Debt Service Reserve Funds, below.)
- (d) Operating Reserve Fund. On or before the last Business Day of each month, the District shall transfer to the Operating Reserve Fund an amount equal to 1/12th (or such greater fraction if the period is less than 12 months as may be appropriate) of the amount which is equal to the difference between the sum on deposit in said Fund at the beginning of the then current Fiscal Year and not less than 1/4 of the Maintenance and Operation Costs as set forth in the District's then current annual budget; provided, that, if any such monthly allocation shall be less than the amount required above for such month, the amount of the next succeeding monthly transfer shall be increased by the amount of such deficiency.
- (e) Subordinate Obligation Payment Fund. On or before the last Business Day of each month, the District shall deposit in the Subordinate Obligation Payment Fund a sum equal to the amount required to be deposited under the instrument securing each Subordinate Obligation.
- (f) Subordinate Obligation Reserve Funds. On or before the last Business Day of each month, the District shall transfer to each trustee with respect to Subordinate Obligations for deposit in the debt service reserve fund, if any, with respect to such Subordinate Obligations an amount equal to the amount, if any, required to be deposited therein to build up or replenish such debt service reserve fund as and to the extent required by the applicable Subordinate Obligation or trust agreement or other instrument securing such Subordinate Obligation.
- (g) General Reserve Fund. On the last Business Day of each month, the District shall, after making each of the foregoing deposits and transfers, transfer all money remaining in the



Water and Sewer Revenue Fund to the General Reserve Fund. The District may withdraw money in the General Reserve Fund for any lawful purpose of the District except to make transfers to the Rate Stabilization Fund.

### Rate Covenant

The District has covenanted under the Master Resolution that it will at all times fix, prescribe and collect or cause to be collected rates, fees and charges for Water and Sewer Service which are reasonably fair and nondiscriminatory and which will be at least sufficient to yield during each Fiscal Year Net Water and Sewer Revenues in an amount sufficient to meet each of the following requirements: First Requirement - Net Water and Sewer Revenues shall be at least 1.15 times the sum of all Debt Service on all Parity Obligations, plus the amount of all deposits required to be made to the Operating Reserve Fund; Second Requirement - Net Water and Sewer Revenues shall be at least 1.10 times the sum of all Debt Service on all Parity Obligations, plus the amount of all deposits required to be made to the Operating Reserve Fund, plus all debt service on all Subordinated Obligations; but, in any event such Net Water and Sewer Revenues shall be sufficient in each Fiscal Year to make all of the deposits and transfers contemplated by paragraphs (b) through (f), above, under Flow of Funds. The District may make adjustments from time to time in such rates, fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Net Water and Sewer Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements of this covenant.

### Additional Parity Obligations

The District may at any time incur or issue Parity Obligations (that is, Obligations the payments of which are payable from the Net Water and Sewer Revenues on a parity with all other Parity Obligations, including without limitation Bonds and Contracts), provided:

(a) The District shall certify that the District is not then in default under any Trust Agreement or with respect to any Parity Obligations.

(b) Such Bond or Contract or other Parity Obligation shall not allow the declaration of payments thereunder to be immediately due and payable in the event of a default by the District thereunder or under the applicable Trust Agreement or other agreement unless such remedy is then allowed with respect to all Parity Obligations then Outstanding.

Notwithstanding the foregoing provisions, there shall be no limitations on the ability of the District to execute Reimbursement Agreements.

(c) Long-Term Parity Obligations may be incurred provided that one of the following tests, as evidenced by a certificate of the District (together with supporting calculations prepared by the District), is satisfied:

1. The Debt Service Coverage Ratio, as defined in the Master Resolution (*see APPENDIX C — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Certain Definitions*), for the most recent period of 12 full consecutive calendar months for which the financial statements of the District has been reported upon by an independent certified public accountant, taking into account (i) all Long-Term Parity Obligations then Outstanding, (ii) the Long-Term Parity Obligations then proposed to be incurred and (iii) all decreases (but not increases), if any, for Water and Sewer Service approved or then in effect as of such date of calculation, is not less than 1.10; or

2. (A) The Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which the financial statements of the District has been reported upon by an independent certified public accountant, (i) taking into account all Outstanding Long-Term Parity Obligations then Outstanding, (ii) but not taking into account the Long-Term Parity Obligations then proposed to be incurred, (iii) taking into account both the completion of all uncompleted Projects, if any, and the costs, if any, of financing such completion, and (iv) taking into account all increases and decreases, if any, for Water and Sewer Service approved or then in

effect as of such date of calculation, is not less than 1.15; and (B) taking into account the matters listed in clauses (i), (iii) and (iv) of (A) above, plus the Long-Term Parity Obligations then proposed to be issued, the Debt Service Coverage Ratio for the first full Fiscal Year of the District following the completion of the Project, if any, being paid for with the proceeds of such proposed Long-Term Parity Obligations, or following the incurrence of Long-Term Parity Obligations for refunding purposes, is expected to be not less than 1.15.

Certain other conditions and tests must be satisfied with respect to Parity Obligations that are not Long-Term Parity Obligations. For a summary of such conditions and tests, *see*, **APPENDIX C — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Summary of Certain Provisions of the Master Resolution.**

### **Debt Service Reserve Funds**

A debt service reserve fund is established by the 1991A Trust Agreement (the “1991A Debt Service Reserve Fund”) and will be funded in the amount of \$7,294,537.50 after giving effect to the issuance of the 2001A Certificates and the refunding of the 1991A Certificates as described herein. The 1991A Debt Service Reserve Fund is required to be maintained in an amount equal to the lesser of (a) 100% of Maximum Annual 1991A Installment Sale Payments or (b) 125% of Average Annual 1991A Installment Sale Payments (the “1991A Debt Service Reserve Fund Requirement”). Amounts in the 1991A Debt Service Reserve Fund are to be used for the payment of interest and principal with respect to the 2001A Certificates and the 1997A Certificates in the event that on any 1991A Installment Sale Payment Date the Trustee has not received sufficient 1991A Installment Sale Payments for such purpose. The 2001A Certificates and the 1997A Certificates are equally and ratably secured by the 1991A Debt Service Reserve Fund.

A debt service reserve fund is established by the 2001B Trust Agreement (the “2001B Debt Service Reserve Fund”) and will be funded from proceeds of the 2001B Certificates in the amount of \$5,098,534.66. The 2001B Debt Service Reserve Fund is required to be maintained in an amount equal to the least of (a) \$5,137,000 or 10% of the original aggregate principal amount of the 2001B Certificates, (b) 100% of Maximum Annual 2001B Installment Sale Payments or (c) 125% of Average Annual 2001B Installment Sale Payments (the “2001B Debt Service Reserve Fund Requirement”). Amounts in the 2001B Debt Service Reserve Fund are to be used for the payment of interest and principal with respect to the 2001B Certificates in the event that on any 2001B Installment Sale Payment Date the Trustee has not received sufficient 2001B Installment Sale Payments for such purpose.

A debt service reserve fund is established by the 1993A Trust Agreement (the “1993A Debt Service Reserve Fund”) and will be funded in the amount of \$3,140,287.50 after giving effect to the issuance of the 2001C Certificates and the refunding of a portion of the 1993A Certificates as described herein. The 1993A Debt Service Reserve Fund is required to be maintained in an amount equal to the lesser of (a) 100% of Maximum Annual 1993A Installment Sale Payments or (b) 125% of Average Annual 1993A Installment Sale Payments (the “1993A Debt Service Reserve Fund Requirement”). Amounts in the 1993A Debt Service Reserve Fund are to be used for the payment of interest and principal with respect to the 2001C Certificates and the 1993A Certificates in the event that on any 1993A Installment Sale Payment Date the Trustee has not received sufficient 1993A Installment Sale Payments for such purpose. The 2001C Certificates and the 1993A Certificates are equally and ratably secured by the 1993A Debt Service Reserve Fund.

The 1991A Debt Service Reserve Fund, the 2001B Debt Service Reserve Fund and the 1993A Debt Service Reserve Fund are herein collectively referred to as the “Debt Service Reserve Funds.”

The District may, at any time during which Certificates are Outstanding and subject to the terms and conditions of the respective Trust Agreements, elect to replace all or a portion of the Debt Service Reserve Funds with an appropriate guaranty, insurance policy or surety bond, with a term ending not earlier than the last scheduled Certificate Payment Date and otherwise in form and substance satisfactory to the Corporation, the District, the Trustee and the Insurer (as defined below), if the coverage provided at least equals the Debt Service Reserve Fund Requirement and if the claims paying ability of the insurance company providing such coverage is rated in the highest rating category (without regard to gradations within ratings) of Moody’s Investors Service and Standard & Poor’s Rating Services.

## CERTIFICATE PAYMENT INSURANCE

The following information has been furnished by Financial Guaranty Insurance Company (the "Insurer") for use in this Official Statement. Reference is made to Appendix F for a specimen of the Insurer's policy.

### Certificate Insurance

Concurrently with the issuance of the Certificates, Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company ("Financial Guaranty") will issue its Municipal Certificate New Issue Insurance Policy for the Certificates (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Certificates which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Certificates (the "Issuer"). Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Certificates or the Trustee of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Certificate to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal and interest shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Certificate includes any payment of principal or interest made to an owner of a Certificate which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancelable and the premium will be fully paid at the time of delivery of the Certificates. The Policy covers failure to pay principal of the Certificates on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Certificates may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

Generally, in connection with its insurance of an issue of municipal securities, Financial Guaranty requires, among other things, (i) that it be granted the power to exercise any rights granted to the holders of such securities upon the occurrence of an event of default, without the consent of such holders, and that such holders may not exercise such rights without Financial Guaranty's consent, in each case so long as Financial Guaranty has not failed to comply with its payment obligations under its insurance policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Certificates are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the Issuer is required to provide additional or substitute credit enhancement, and related matters.

This Official Statement contains a section regarding the ratings assigned to the Certificates and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Certificates. Reference should be made to the description of the Issuer for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation, a Delaware holding company. FGIC Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither FGIC Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of December 31, 2000, the total capital and surplus of Financial Guaranty was \$1.089 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at

25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau  
(telephone number: 212-480-5187).

### ESTIMATED SOURCES AND USES OF FUNDS

Sources:

Principal Amount of Certificates	\$134,090,000.00
Accrued Interest	341,749.04
Moneys released from 1991A Debt Service Reserve Fund	363,317.70
<u>Plus: Net Premium</u>	<u>2,206,706.45</u>
Total Sources	\$137,001,773.19

Uses:

Deposit to 2001B Construction Fund	\$ 45,000,000.00
Deposit to 1991A Debt Service Fund (*)	176,207.58
Deposit to 1991A Escrow Fund	71,008,115.70
Deposit to 1993A Debt Service Fund (*)	29,981.74
Deposit to 1993A Escrow Fund	13,881,190.18
Deposit to 2001B Debt Service Fund (*)	135,559.72
Deposit to 2001B Debt Service Reserve Fund	5,098,534.66
Costs of Issuance, including Insurance Premium	838,920.15
<u>Underwriter's Discount</u>	<u>833,263.46</u>
Total Uses	\$137,001,773.19

(\*) Constituting interest accrued to April 4, 2001.

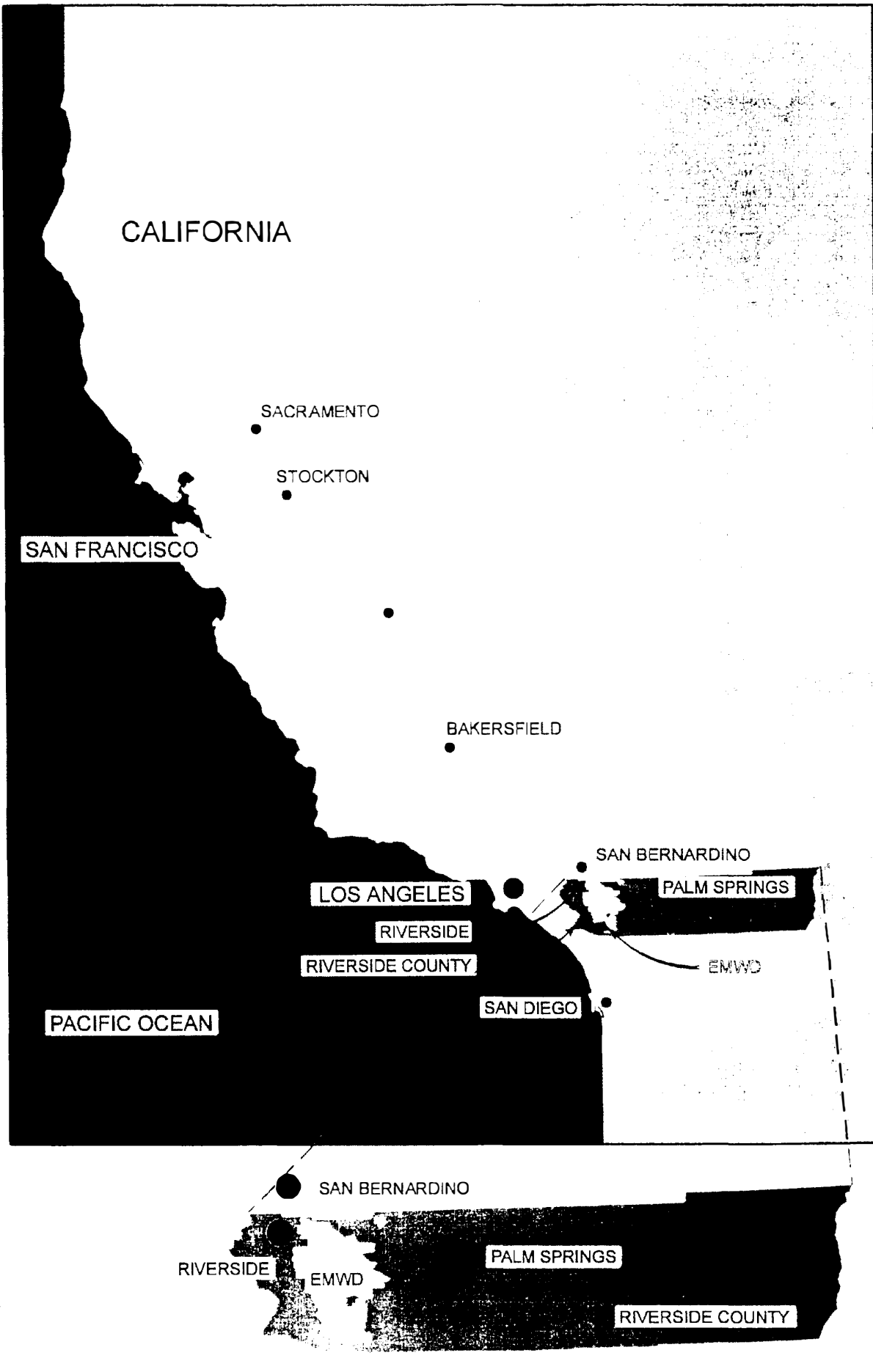
**INSTALLMENT SALES PAYMENT SCHEDULE**

The 1991A Installment Sale Payments, 2001B Installment Sale Payments and 1993A Installment Sale Payments are required to be made by the District under the 1991A Installment Sale Agreement, the 2001B Installment Sale Agreement and the 1993A Installment Sale Agreement, respectively. The 1991 Installment Sale Payments and the 1993B Installment Payments are required to be made by the District under the 1991 Installment Sale Agreement, and the 1993B Installment Sale Agreement, respectively. Pursuant to the 1991 Trust Agreement, the 1991A Trust Agreement, the 1993A Trust Agreement, the 1993B Trust Agreement and the 2001B Trust Agreement, the 1991 Installment Sale Payments, the 1991A Installment Sale Payments, the 1993A Installment Sale Payments, the 1993B Installment Sale Payments and the 2001B Installment Sale Payments will each be deposited in their respective Debt Service Fund, held by U.S. Trust Company National Association, as trustee therefor, and applied by U.S. Trust Company National Association, to pay amounts due with respect to the 1991 Certificates, the 1993A Certificates, the 1993B Certificates, the 1997A Certificates, the 1998A Certificates and the 2001 Certificates, according to the following schedule:

**INSTALLMENT SALES PAYMENT SCHEDULE**

Year	Outstanding Series 1991, 1993A, 1993B, 1997A and 1998A Certificates		2001 Certificates		Total Payments
	Principal	Interest	Principal	Interest	
07/01/2001	3,735,000	4,505,427	-	1,906,600	10,147,027
07/01/2002	3,960,000	8,799,538	2,445,000	6,475,245	21,679,783
07/01/2003	4,150,000	8,631,447	2,545,000	6,377,445	21,703,892
07/01/2004	4,355,000	8,423,972	2,660,000	6,263,445	21,702,417
07/01/2005	3,395,000	8,205,037	3,970,000	6,131,545	21,701,582
07/01/2006	3,570,000	8,035,162	4,110,000	5,988,825	21,703,987
07/01/2007	3,760,000	7,852,837	4,260,000	5,838,275	21,711,112
07/01/2008	3,970,000	7,660,788	4,475,000	5,632,063	21,737,851
07/01/2009	4,180,000	7,457,905	4,680,000	5,422,863	21,740,767
07/01/2010	4,450,000	7,183,163	4,860,000	5,235,663	21,728,826
07/01/2011	4,750,000	6,890,311	5,070,000	5,035,013	21,745,323
07/01/2012	5,065,000	6,577,556	5,310,000	4,789,275	21,741,831
07/01/2013	5,400,000	6,243,834	5,570,000	4,527,500	21,741,334
07/01/2014	7,575,000	5,966,914	4,000,000	4,252,775	21,794,689
07/01/2015	7,990,000	5,575,915	4,205,000	4,047,525	21,818,440
07/01/2016	8,420,000	5,163,498	4,420,000	3,830,550	21,834,048
07/01/2017	8,880,000	4,728,881	4,660,000	3,592,975	21,861,856
07/01/2018	9,365,000	4,270,524	4,910,000	3,342,500	21,888,024
07/01/2019	9,875,000	3,787,150	5,155,000	3,097,000	21,914,150
07/01/2020	10,405,000	3,277,295	5,415,000	2,839,250	21,936,545
07/01/2021	17,200,000	2,740,075	-	2,568,500	22,508,575
07/01/2022	18,085,000	1,857,713	-	2,568,500	22,511,213
07/01/2023	18,990,000	951,575	-	2,568,500	22,510,075
07/01/2024	-	-	6,310,000	2,568,500	8,878,500
07/01/2025	-	-	6,625,000	2,253,000	8,878,000
07/01/2026	-	-	6,955,000	1,921,750	8,876,750
07/01/2027	-	-	7,305,000	1,574,000	8,879,000
07/01/2028	-	-	7,670,000	1,208,750	8,878,750
07/01/2029	-	-	8,050,000	825,250	8,875,250
07/01/2030	-	-	8,455,000	422,750	8,877,750

EASTERN MUNICIPAL WATER DISTRICT  
LOCATION MAP



## THE DISTRICT

### Organization, Purpose and Powers

The District was organized under the Law on October 16, 1950 for the primary purpose of importing Colorado River water to its service area in order to augment local water supplies. The District's service area is primarily the westerly third of Riverside County and, prior to the District's creation, the local water supply was primarily groundwater wells. Presently, the District imports approximately 75% of its water supply from The Metropolitan Water District of Southern California ("MWD") and derives approximately 25% of its water supply from local groundwater sources. In general, the District annually supplies approximately 50% of the water consumed within the District's service area and the remainder is provided by private groundwater wells and other agencies.

In 1962, the District began providing wastewater treatment services to customers within its service area and, as a consequence, has become actively involved in the production of recycled water (i.e., wastewater which has been treated to a level acceptable for nondomestic purposes).

The District's water and wastewater customers include retail customers (e.g., residential, commercial and agricultural) located in both incorporated and unincorporated areas within the District's service area, as well as wholesale customers (e.g., municipalities and local water districts) located within its service area.

The District is authorized to acquire, control, distribute, store, treat, reclaim, recapture and salvage any water (including sewage) for the beneficial use of the District, its inhabitants or the owners of rights to water in the District.

The Law also authorizes the District to exercise the power of eminent domain; to levy and collect taxes; to fix, revise and collect rates or other charges for the delivery of water, use of facilities or property or provisions for service; and to fix in each fiscal year a water standby or availability charge and a sewage and wastewater service standby or availability charge on land within the boundaries of the District to which water and sewage and wastewater services, respectively, are made available by the District. The District may also issue bonds, borrow money and incur indebtedness. For a discussion of current and potential limitations on the District's ability to maintain or increase taxes, fees and other charges, including such fees and other charges as may be limited by the terms of Proposition 218, *see*, **HISTORICAL FINANCIAL OPERATIONS - Certain Limitations on Taxes and Other Revenue Sources.**

As authorized under the Law, the District has established 61 separate special improvement districts within its service area for the purpose of providing certain water and wastewater improvements for each such special improvement district and charging the costs of such improvements to each such special improvement district through ad valorem tax assessments levied and collected on property located within the boundaries of each such special improvement district. Such ad valorem taxes levied and collected with respect to special improvement districts do not constitute revenues of the District's Water and Sewer System, and general obligation bonds issued by the District on behalf of each special improvement district constitute obligations of such special improvement district, not obligations of the District. In addition, the District provides Water and Sewer Service to retail customers located within these special improvement districts and the charges for such service constitute revenues of the District's Water and Sewer System.

The District does not presently levy any taxes other than taxes in respect of special improvement districts for repayment of general obligation bond indebtedness. However, as provided under California law, the District does receive its share of the county-wide one percent tax levied and collected by Riverside County, and the proceeds of such share are available, but are not required to be used, to pay Maintenance and Operation Costs of the Water and Sewer System. (*See*, **HISTORICAL FINANCIAL OPERATIONS - Certain Limitations on Taxes and Other Revenue Sources.**)

The District is a member agency of The Metropolitan Water District of Southern California and is currently entitled to have one District representative on the MWD board.

## **Board of Directors, Management and Employee Relations**

Board of Directors. The District is governed by a five-member Board of Directors (the "Board"). Directors are elected by districts for staggered four year terms.

*Rodger D. Siems*, President of the Board since January 2001 and a member of the Board since July 1985, is a retired agriculturalist. He received a Bachelor of Science degree in Agricultural Engineering from Cal Poly, San Luis Obispo. Mr. Siems has served as a Director of the Association of California Water Agencies (ACWA), as Chair of the Association's Region 9 (Riverside, San Bernardino and Imperial counties) as a member of ACWA's Federal Affairs and Water Quality committees and its Water Environment Subcommittee. He is a member of the Endangered Species Act Committee and the Public Projects Coalition of the National Water Resources Association. From 1997 through 2000, he served as a gubernatorial appointee to the Santa Ana Regional Water Quality Control Board. He is a former member of the Hemet Unified School District Board. His term expires in January 2003.

*Richard R. Hall*, Vice President of the Board since January 2001, was originally appointed to the Board in November 1993 and has previously served as President and Vice President. Mr. Hall has extensive background as General Manager of Chino Basin Municipal Water District and of Rancho California Water District over a total of a 16 year period, and as a gubernatorial appointee to the State Water Quality Advisory Commission. He serves as a member of the Association of California Water Agencies (ACWA) Energy Committee, and is a Commissioner of its Utility Service Agency. Registered as a California Agricultural Engineer, Mr. Hall founded Temecula Valley Pipe and Supply and represents Eastern Municipal Water District on the Santa Ana Watershed Project Authority (SAWPA). His Board term expires in January of 2003.

*Marion V. Ashley*, Director, has been a member of the Board since June 1992. He also represents the District as a Director of the Metropolitan Water District of Southern California. A graduate of San Diego State University with a Bachelor of Science degree in Business Management, Mr. Ashley is also a Certified Public Accountant. As a Director of the Association of California Water Agencies (ACWA), Ashley serves as Chair of its Water Management Committee and was charter President of its Region 9. He represents special districts on the Local Agency Formation Commission (LAFCO), which establishes jurisdictions of local government agencies and is its former chair; Member of the Strategic Vision Steering Committee for Riverside County; and President and CEO of The Ashley Capital Group, a real estate investment service firm. Mr. Ashley is also Chairman of the Board of the Valley Bank of Moreno Valley. His Board term expires in January of 2005.

*Randy A. Record*, Director, was first elected to Eastern Municipal Water District's board of directors in November 2000 and took office in January 2001. Active in the farming community for more than two decades, he is a director of the Riverside County Farm Bureau and a member of the Hemet/San Jacinto Groundwater Association, the Western Growers' Association, and the California Alfalfa and Forage Association. Prior to his election to the District Board, he had served on several District advisory committees. He is a graduate of California Polytechnic University (Cal Poly), San Luis Obispo. His Board term expires in January 2005.

*David J. Slawson*, Director, became a member of the Board in January 1995. He has previously served as President and Vice President. A licensed Professional Land Surveyor and registered Environmental Assessor, he is a former member of the California Department of Consumer Affairs' Board of Registration for Professional Engineers and Land Surveyors. In local government, he was a Moreno Valley city planning commissioner. Mr. Slawson is a member of the Association of California Water Agencies (ACWA) Water Quality Committee and is President of Winchester Associates, a civil engineering and land surveying firm. His Board term expires in January 2003.

The Board regularly meets on the first and third Wednesday of each month. The Board has six standing committees: Executive; Finance and Human Resources; Operations and Engineering; Building and Grounds; Planning; and Resource Development and Research. These committees review District matters and recommend action to be taken by the Board.

### Management

*John B. Brudin* served as Deputy General Manager from January 1994 until appointed General Manager October 1, 1994. He has extensive experience in engineering and business management, and is a California registered civil engineer and Arizona-registered professional engineer. Mr. Brudin is past President of the



Consulting Engineers and Land Surveyors of California and was a founding partner in 1959 and subsequent President of NBS/Lowry, an engineering and planning firm. He holds a Bachelor of Science degree from the University of California, Berkeley and attended Management Programs at the University of Southern California and Harvard Business School. Mr. Brudin is a board member of a hospital and a bank and is a Harvard Business School graduate and former Regional Entrepreneur of the year.

*Anthony J. Pack*, Deputy General Manager of Operations and Administration, joined the District in July 1990 and held several managerial positions before being promoted to his present position in November 1995. He is responsible for the daily operation of the District's water, wastewater, maintenance, and administrative systems. Prior to joining the District, Mr. Pack had over 20 years in federal government service in a variety of managerial and facility maintenance positions. He earned a Master's degree from the University of Southern California and a Bachelor of Arts degree from the University of Connecticut. Mr. Pack is President of the California Municipal Utilities Association (CMUA) and a member of the Board of Directors of the Southern California Alliance of Public owned treatment works (SCAP).

*Charles J. Bachmann*, Assistant General Manager, Engineering joined the District in 1992. He has over 24 years' experience in engineering and management and is a Registered California Civil Engineer. Bachmann's area of expertise is water and wastewater engineering. Prior to joining the District, he had been associated with several engineering consulting firms in southern California and New York. Mr. Bachmann received his Bachelor of Science degree (*Cum Laude*) in Engineering from the State University of New York's College of Environmental Science and Forestry. He holds a Masters of Science degree in Civil Engineering, sanitary emphasis, from the University of Southern California.

*Parameshwaran Ravishanker*, Assistant General Manager, Resource Development joined the District in 1990. He is responsible for heading development of cost-effective water supply strategies to increase reliability of those supplies. Dr. Ravishanker previously directed water resources planning at the Santa Ana Watershed Project Authority, where he currently serves as an alternate commissioner. He served in the California Department of Health Services as a waste management engineer and has been an international consultant for the United Nations/FAO projects in Singapore and Pakistan. He holds a Bachelor of Science degree in Civil Engineering, a Master's degree in Environmental Engineering, and received his Ph.D. in Environmental Engineering and Hydrology from the University of California, Davis. Dr. Ravishanker is a registered professional engineer in the State of California.

*Charles E. Rathbone, Jr.*, Director of Finance, has been with the District since 1988. Mr. Rathbone previously served for three years as controller of a major aluminum company and is a graduate of the University of Redlands, where he obtained a Bachelor of Arts degree in Economics and Business Administration. Mr. Rathbone was most recently a board member of the Hemet Unified School District from 1994-1998.

Employee Relations. As of December 31, 2000, the District had 475 employees of which 53 are in the Administration Branch, 245 are in the Operations and Maintenance Branch, 75 are in the Engineering Branch, 13 are in the Resource Development Branch, and 89 are in the Executive Branch. The District's single bargaining unit, which includes 375 employees, is represented by the International Brotherhood of Electrical Workers (IBEW) Local 1436, which was voted in January 2000. Labor and management enjoy a stable, cooperative relationship, regularly working together to resolve problems of mutual interest. The District has never experienced a strike, slow down or work stoppage.

Defined Benefit Pension Plan. The District is a member of the California Public Employees' Retirement System ("PERS"), an agent multiple-employer pension system, which provides a contributory defined benefit plan for all permanent employees of the District. These benefit provisions and all other requirements are established by California law. On behalf of its employees, the District pays the employees' required contribution of 7%. The District, as employer, is required to contribute the remaining amounts necessary to fund PERS, using the actuarial basis specified by California law. The total pension expense of the District for the year ended June 30, 2000 was \$1,421,675. The District's assets in excess of pension benefit obligation as of June 30, 2000, was \$33,849,878. The District's contributions to PERS, all made in accordance with actuarially determined requirements, were approximately 6.2% of annual payroll for the fiscal year ended June 30, 2000.

Other Benefits. District employees are not members of the Federal Social Security system. However, the District contributes a portion of what ordinarily would be the District's participation of social security taxes (using a

rate of 7.15% on the first \$16,500 of compensation) to a special trust fund for its employees to provide additional retirement benefits. Total contributions to this trust during the years ended June 30, 2000 and June 30, 1999 were \$570,649 and \$561,199, respectively.

The District has established a deferred compensation plan for employees wishing to defer part of their salaries. The total contributed by employees (including accumulated interest) through June 30, 2000 and June 30, 1999 was \$20,165,324 and \$17,861,680, respectively.

### **Insurance Programs**

Self-Insurance General Liability. Since June 30, 1986, the District has maintained a self-insurance program in connection with all its general liability risks, including nonvehicular exposure loss due to premises, operations, personal injury and product liability.

Under this program, the District is responsible for all general liability claims and for developing a self-insurance reserve fund with an initial target of \$1,000,000 with the inclusion of \$400,000 per year funded for this program. This insurance expense is proportionately allocated among the operating funds of the District and of the various special improvement districts established by the District.

On January 23, 1991, by Board resolution, the District's General Liability Self-Insurance Reserve account within the equity section was increased to a ceiling of \$2,000,000. Annual accruals into the fund were increased to \$500,000.

The Board established this self-insurance program for public liability with the assistance of an insurance consultant. An actuarial reserve review for the District was prepared by this consultant, concluding that such program was adequate for its purposes.

Excess General Liability Insurance Coverage. Effective July 6, 1994, the Board approved excess general liability, errors and omissions, and auto liability insurance coverage, with a \$10,000,000 coverage limit. This excess coverage is combined with the District's Self-Insured Retention level and the auto primary coverage of \$2,000,000.

Property Appraisal and Seismic Analysis. A property appraisal and seismic analysis was performed at the District's five (5) wastewater reclamation facilities, the main offices, warehouse and shops, and the water storage facilities. (See, **Seismic Considerations.**)

The property appraisal and valuation report was prepared on April 1, 1992 and again on January 6, 2000, in conformity with generally accepted appraisal practices for purposes of establishing insurable values and property records. This report provides current replacement cost for structures and equipment at the above facilities in the event of a loss. A complete contents inventory was included in the appraisal. The report summarizes values by location and by buildings with site maps for each facility. Construction data includes types of construction materials, square footage, fire underwriters classification, and insurable values.

The seismic risk and vulnerability study for the above facilities was completed September 21, 1992.

Objectives of this study provided the District with a brief preliminary characterization of the seismic vulnerability and expected earthquake loss levels for typical major structures and equipment at the main facilities of the District. Additionally, it provided the tools to examine the adequacy of earthquake insurance coverage and recommendations for risk diversification and risk reduction. (See, **Seismic Considerations.**)

Property Insurance Coverage. The District maintains blanket insurance coverage for its buildings and equipment, excluding earthquake and flood. All risk coverage, including earthquake, was eliminated from the District's insurance program consistent, in the District's judgment, with the District's covenant as to insurance contained in the Master Resolution, which covenant provides in part that the District is not required to procure or maintain such insurance unless such insurance is commercially available at reasonable cost. Contractors are required to provide insurance coverage during the period of construction.

## Debt Structure of the District

General. The District has established 61 special improvement districts, of which 32 are water special improvement districts, 23 are sewer special improvement districts and 6 are combined water and sewer special improvement districts. The District issued (on behalf of certain of these special improvement districts) 42 issues of voter-authorized general obligation bonds between 1952 and 1980 and 42 issues of voter-authorized general obligation bonds between 1980 and 2000, of which \$14,790,000 remained outstanding as of June 30, 2000. There are \$597,325,000 authorized but unissued general obligation bonds of the various special improvement districts within the District as of June 30, 2000. Such bonds are payable from ad valorem taxes levied by the District within the improvement districts for which such bonds were issued. Each series of such bonds constitutes obligations of the respective special improvement district, not obligations of the District, and the ad valorem taxes levied by the District on behalf of each such special improvement district are available only for the repayment of the bonds issued for such special improvement district. (See, **HISTORICAL FINANCIAL OPERATIONS - Certain Limitations on Taxes and Other Revenue Sources.**)

Similarly, the District has entered into various loans, notes, and contracts payable to finance some of its capital requirements and construction projects. These obligations totaled \$36,556,179 at June 30, 2000 and \$37,175,525 at June 30, 1999. A full disclosure of the specific obligations can be found in the accompanying 1999/2000 Audited Financial Report.

The 1993B Certificates and Related Obligations. The 1993B Certificates are variable rate certificates which, until converted to a fixed interest rate, bear interest at a weekly interest rate. However, 1993B Installment Sale Payments currently being made by the District have been fixed pursuant to the terms of the Swap Agreement which, subject to certain conditions, is scheduled to remain in effect until the final maturity of the 1993B Certificates. Under the 1993B Installment Sale Agreement, 1993B Installment Sale Payments are required to be made by the District from Net Water and Sewer Revenues on deposit in the Installment Payment Fund held under the Master Resolution. The 1993B Installment Sale Payments are deposited in the Debt Service Fund established under the 1993B Trust Agreement in an amount sufficient to pay (i) principal and interest represented by the 1993B Certificates (ii) amounts due and owing under the Swap Agreement and (iii) amounts due and owing under a liquidity facility (the "Liquidity Facility") and a remarketing agreement (the "Remarketing Agreement") entered into in connection with the execution and delivery of the 1993B Certificates. The District's obligations under the 1993B Installment Sale Agreement are on a parity with the 1991A Installment Sale Payments, 2001B Installment Sale Payments and 1993A Installment Sale Payments with respect to payment from Net Water and Sewer Revenues.

The payment obligations of the District under the Swap Agreement, Liquidity Facility and Remarketing Agreement are payable from 1993B Installment Sale Payments under the 1993B Installment Sale Agreement on the same terms and subject to the same limitations as its obligation to pay principal and interest represented by the 1993B Certificates under the 1993B Installment Sale Agreement.

In addition, the Swap Agreement is subject to termination at the option of the District or the Swap Agreement provider in certain circumstances. Such termination could result in the District being required to make an unanticipated termination payment, which payment would be payable from increased 1993B Installment Sale Payments and, under certain circumstances, could be a substantial amount.

Other Certificate Transactions and Projects. In 1988, State Street Bank and Trust Company of California, N.A., executed \$39,650,000 in certificates of participation (the "1988 Certificates"), evidencing proportionate interests in rental payments to be made by the District to the Corporation under a certain sublease agreement (the "1988 Sublease Agreement"), to finance certain improvements and costs (the "1988 Project") related to the District's Water and Sewer System. In 1989, Bankers Trust Company of California, National Association executed and delivered \$59,005,000 in certificates of participation (the "1989 Certificates"), evidencing proportionate interests in rental payments to be made by the District to the Corporation under a certain sublease agreement (the "1989 Sublease Agreement"), to finance certain other improvements and costs (the "1989 Project") related to the Water and Sewer System. In June 1991, the 1991A Trustee executed and delivered the 1991A Certificates to finance the prepayment and defeasance of the 1988 Certificates, the 1988 Sublease, the 1989 Certificates and the 1989 Sublease. In June 1997, the 1991A Trustee executed and delivered the 1997A Certificates to finance the prepayment and defeasance of the 1991A Certificates maturing on July 1, 2023.

The 1988 Project and such certain other costs included (1) the acquisition of land for Operations and Administrative facilities, the construction of such facilities and the construction of improvements to the Perris Valley Sewer Treatment Plant. (2) the reimbursement to the District for the cost of constructing the Sun City Sewer Treatment Plant; and (3) the reimbursement to the District for funds advanced to refinance certain loans from the United States Department of the Interior, Bureau of Reclamation. These Projects have been completed.

The 1989 Project and such certain other costs included (1) the acquisition of land for the benefit of the Moreno Valley Sewer Service Area, (2) the construction of improvements to the Moreno Valley Regional Water Reclamation Facility and appurtenances thereto, and (3) the construction of improvements to the Temecula Valley Regional Water Reclamation Facility and certain other sewer improvements. These facilities are complete.

In March 1991, the 1991 Certificates were executed and delivered for the principal purpose of financing the 1991 Project. The District's 1991 Project included, among others, four major projects (i) the Perris Valley Regional Water Reclamation Facility—Second Expansion, (ii) in the Sun City Sewer Service Area 33, a Sun City Sewage Lift Station, a Sun City Force Main, a Sun City Interceptor Sewer and a Salt Creek Interceptor Sewer, (iii) in the Perris Valley Sewer Service Area 35, an Ethanac Road Interceptor Sewer and Force Main, a McLaughlin Road Interceptor Sewer, a northwest Perris Valley Interceptor Sewer and a northeast Perris Valley Interceptor Sewer, (iv) in the Winchester - Southwest Hemet Sewer Service Area 31, a Winchester and southwest Hemet Interceptor Sewer and Force Main, and a Winchester Sewer Lift Station, and (v) a disposal land site. In addition, \$3.6 million of the net proceeds of the 1991 Certificates were designated for the costs of completing certain administration facilities originally financed in 1988.

The Perris Valley Regional Water Reclamation Facility Second Expansion, construction of the Sun City Lift Station, the Sun City Force Main, the Sun City Interceptor Sewer and the Salt Creek Interceptor Sewer are complete. In the Perris Valley Sewer Service Area 35, construction of the Ethanac Road Interceptor Sewer and Force Main, the McLaughlin Road Interceptor Sewer and the northwest and northeast Perris Valley Interceptor Sewers are also complete. In the Winchester - Southwest Hemet Sewer Service Area 31, the Winchester Interceptor Sewer, the Southwest Hemet Interceptor Sewer and the Winchester Lift Station are complete.

In May 1993, the 1993A Certificates were executed and delivered for the principal purpose of financing the 1993A Project. The District's 1993A Project included, among others, the following capital improvements to the District's Water, Sewer and Reclamation System: (i) a feeder line between Lake Perris and the Mills Treatment Plant, including a pipeline from Lake Perris to the Mills Treatment Plant, a pump station at the Mills Treatment Plant, and a pump station at Lake Perris; (ii) additions to the District's recycled water facilities, including pipelines and recharge and discharge facilities; and (iii) certain other additions to the District's Water and Sewer System, including two pump stations, three distribution pipelines and production wells.

The Mills Treatment Plant Feeder Project has been temporarily suspended. It was originally intended that the District and MWD would enter into an agreement whereby the District would finance a portion of this cost from the proceeds from the 1993A Certificates. However, MWD expanded the capacity of its Mills Treatment Plant which provided an additional 272 cfs of capacity which has enabled the District to defer the project. It is the intent to substitute other major water projects such as the District's share of the desalter pipelines and production wells and/or other projects that will enhance the reliability of water supply.

The Recycled Water System projects are at various stages of completion. Under the Regional Water Treatment Plant Storage Facilities projects, the Sun City Pump Station, Trumble Road Storage Ponds and the Winchester Pump Station are completed; and the storage recovery wells were terminated after a preliminary study determined that it was not feasible. The Distribution/Recharge Facilities included 5,300 linear feet of 48" pipeline which has been completed and a recycled storage tank which has been deferred. The project under the Discharge Facilities consisted of 48,500 feet of 54" pipeline from the Sun City RWRP to the Temescal Wash at Wasson Canyon. This project, also known as the Temescal Outfall, is complete.

The Water System projects are also substantially complete. The Pat and Auld Pumping Stations upgrades; the Holland/Simpson Distribution Pipeline; Simpson/Fruitvale Phase II; and the Perry II and Dairyland production well projects are complete. The Auld Pump Station Chlorination project is dependent on completion of the Simpson/Fruitvale Phase I project which is in the preliminary design phase.

## **District's Investment Policy**

The District has adopted a written Statement of Investment Policy to promote its stated objectives of (i) preserving principal by mitigating both credit risk and market risk, (ii) maintaining liquidity, and (iii) providing an acceptable rate of return after first considering safety of principal and liquidity.

Under the Statement of Investment Policy, investments shall be generally consistent with the Prudent Investor Rule and are governed by certain provisions of the California Government Code. Within the limitations imposed by the California Government Code, the District further restricts the types of investments and their maturities. Generally, permitted investments include: United States Treasury, agency and instrumentality obligations; obligations of the State of California and its political subdivisions and local agencies; banker's acceptances; commercial paper of domestic corporations; certificates of deposits; repurchase agreements; reverse repurchase agreements; the California Local Agency Investment Fund established by the State Treasurer; time deposits; medium-term notes of corporation; mutual funds; mortgage and consumer receivable pass-through securities; collateralized mortgage obligations; and mortgage and consumer receivable-backed certificates. Under the Statement of Investment Policy, prohibited investments include inverse floaters, indexed notes and interest-only strips that are derived from a pool of mortgages.

In addition, the Statement of Investment Policy provides certain guidelines for diversification of investments, liquidity goals, qualification of banks and securities dealers, and collateralization requirements for certain investments.

## **Seismic Considerations**

In September 1992, Dames & Moore conducted an earthquake loss and risk screening for the District's main facilities. For the purposes of this report, the main facilities included: the District's headquarters, five reclamation facilities, and sixty steel water storage tanks. The objective of the study was to provide the District with a brief preliminary characterization of the seismic vulnerability and expected earthquake loss levels for typical major structures and equipment at these facilities.

This study indicates that, although the District is bounded by two active fault zones, the San Jacinto fault zone on the Northeast and the Elsinore fault zone on the Southwest, most of the water reclamation facility structures are expected to experience relatively moderate damage in a 7.5 magnitude scenario. The impact of lesser magnitude events is expected by the District to be temporary, localized and repairable. District facilities are designed to withstand earthquakes with minimal damage. The water reclamation facilities and main offices are located on relatively level terrain, with firm alluvium composition, minimizing the potential for earthquake losses. The District has taken steps to reduce the impacts of fault rupture on major pipelines and maintains an inventory of repair items and large diameter pipe for such contingencies. The fresh water storage tanks are built on cut slopes, consisting mostly of large-diameter steel tanks of modest height, having low height-to-diameter ratios. Most of the large tanks have an articulated large diameter inlet/outlet piping connection with flexible expansion couplings and are equipped with seismic control valves which will preserve the storage capacity during a large seismic event. Earthquake loads are taken into consideration in the design of project structures such as pumping plants and interceptor facilities. To date, no District facilities have suffered any significant earthquake damage.

The District has an Emergency Response Plan which it continues to update in coordination with MWD, Southern California MWD member agencies and other local governments. In October 1995 the District agreed to participate in the Riverside County Emergency Operational Area. This agreement is intended to organize the efforts of local agencies responding to a disaster and is part of the Standardized Emergency Management System (SEMS) developed by the California Office of Emergency Services. Internally, the emergency action plan calls for specific levels of response from District personnel who are to follow detailed steps for field facility inspection and assessment of damages. This information is then conveyed to the District's Emergency Operations Center (EOC) for development of response plans. The District Operations Staff conduct training exercises and drills on a regular basis throughout the year.

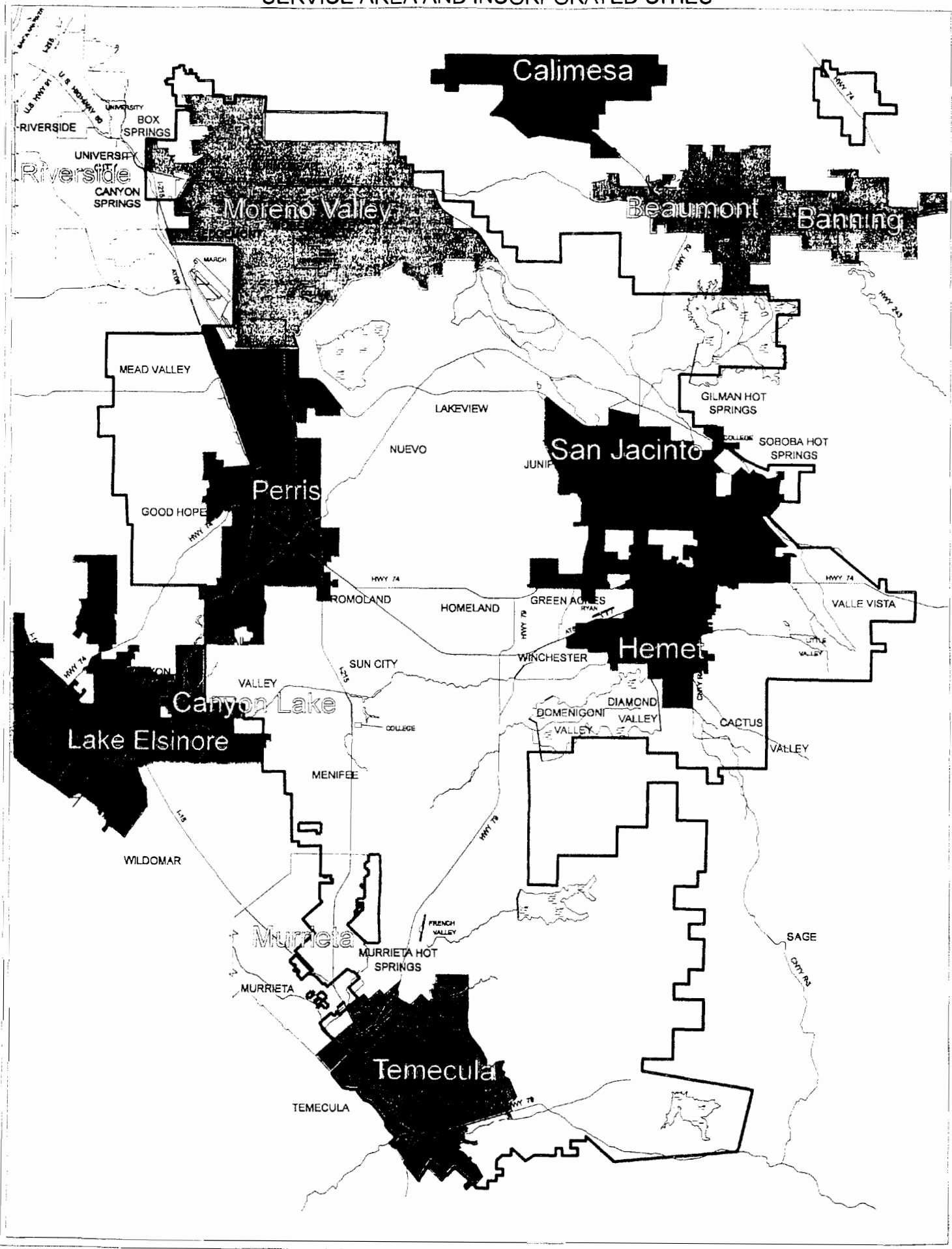
## DISTRICT SERVICE AREA

The District's service area lies within the westerly third of Riverside County, encompassing 352,000 acres (555 square miles). The map on page 25 indicates the location of the District's service area in Riverside County, a detailed District map is provided on page 26. When the District was annexed to MWD by the District's voters in 1951, its service area consisted of 86 square miles. Growth has resulted from 54 annexations and 5 detachments of service areas ranging in area from 1 to 72,000 acres. The District is divided into separate regional service areas for water service and for sewer service.

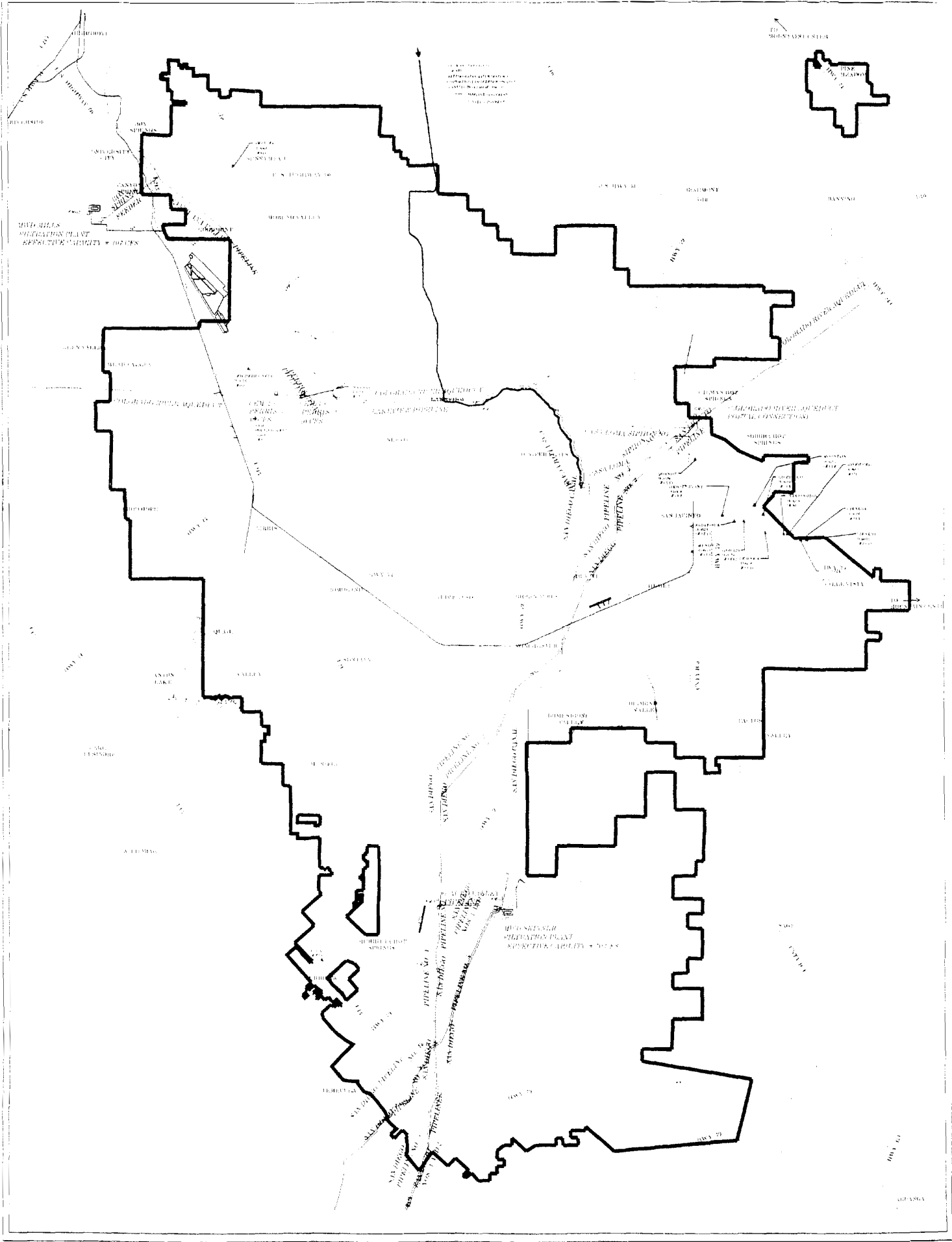
Riverside County's population increased by 141,100 between 1996 and 2000 to a total of 1,522,900. Of the total population of Riverside County, approximately 29% live within the District. The District has estimated that the population of the District's service area as of January 2000 was 439,000.

For additional demographic and economic information relating to Riverside County, *see* **APPENDIX A – DEMOGRAPHIC INFORMATION REGARDING THE COUNTY OF RIVERSIDE AND THE DISTRICT'S SERVICE AREA**. In the opinion of the District, such demographic and economic information, in general, has equal application to the District's service area.

EASTERN MUNICIPAL WATER DISTRICT  
SERVICE AREA AND INCORPORATED CITIES



# EASTERN MUNICIPAL WATER DISTRICT SOURCES OF SUPPLY - MWD AND EMWD WELLS





## WATER RESOURCES, FACILITIES AND USAGE

### General

The District receives its water supply from two sources: (i) local groundwater and (ii) water imported by the District. The sole source of the District's imported water is MWD. The District also supplies recycled water or highly treated sewage effluent for nondomestic purposes.

Approximately 25% of the District's water supply comes from local groundwater sources. Such sources are heavily dependent upon rainfall and other sources of recharge. The remaining 75% of the District's water supply comes through purchases from MWD, which in turn obtains its water supply from two primary sources: the Colorado River via the Colorado River Aqueduct; and the State Water Project via the Edmund G. Brown California Aqueduct (see map on page 25). For the fiscal year ended June 30, 2000, MWD supplied the District 66,564 acre-feet ("af") of water. (Quantities of water are expressed in terms of acre feet. An acre foot is the amount of water which will cover one acre to a depth of one foot and is equivalent to 325,900 gallons, or as much as two families consume in and around their homes in one year.)

The District provides water service to retail customers located within the cities of Moreno Valley and Temecula and the unincorporated communities of Good Hope, Homeland, Lakeview, Nuevo, Mead Valley, Murrieta, Murrieta Hot Springs, Quail Valley, Romoland, Sun City, Valle Vista and Winchester (collectively, the "Municipalities"). The District also supplies water on a wholesale basis to the Cities of Hemet, San Jacinto and Perris, Lake Hemet Municipal Water District, Nuevo Water Company, Elsinore Valley Municipal Water District, Western Municipal Water District, Rancho California Water District (collectively, the "Wholesale Customers").

### The Metropolitan Water District of Southern California

Composition of MWD. MWD was created in 1928 by vote of the electorates of a number of Southern California cities to provide a supplemental supply of water for domestic and municipal uses at wholesale to its constituent agencies. Surplus water is sold for agricultural use. The MWD service area comprises 5,168 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. There are 26 constituent agencies of MWD, consisting of 14 cities, 11 municipal water districts (including the District) and one county water authority. MWD is governed by a Board of Directors, currently numbering 37 members. Each constituent agency has at least one representative on the MWD Board. Representation is based upon each constituent agency's assessed valuation. The District has one representative on the MWD Board. The total population of the MWD service area is more than 17 million.

MWD Scheduling and Operations. MWD constituent agencies request water from MWD at various delivery points within MWD's service area and pay for such water at uniform rates established by the MWD Board for each class of service. For planning purposes, each MWD constituent agency advises MWD annually in December of its anticipated delivery requirements for each of the five following fiscal years. Charges for water delivered are billed monthly and payable by the end of the second month following delivery.

MWD Revenues. The principal source of MWD revenues is water sales.

Water rates are established by majority vote of the MWD Board and are not subject to regulation by the Public Utilities Commission of California or by any other local, state or federal agency. Rates must be uniform for any class of service, and no water may be provided free of charge. Under the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended (the "MWD Act"), MWD is required, so far as practicable, to fix such rate or rates for water as will result in revenue which, together with revenue from any water standby or availability charge or assessment, will pay the operating expenses of MWD, provide for repairs and maintenance, provide for payment of the purchase price or other charges for property or services or other rights acquired by MWD, and provide for the payment of the interest and principal of the bonded debt of MWD, subject to the applicable provisions of the MWD Act authorizing the issuance and retirement of such bonds. The same water rate is charged for water provided from the Colorado River and the State Water Project.

Since the largest single component of the District's rates is the cost of water purchased from MWD, the District has, historically, adjusted its water rates to its customers as the cost of water purchased from MWD has changed.

MWD is also empowered to impose an annual water standby or availability service charge, to be allocated among MWD's constituent public agencies as determined by the MWD board based on, among other factors, historical water deliveries by MWD; contracted or projected water service demands by constituent public agencies; service connection capacity; acreage; property parcels; population; and assessed valuation. The charge may be collected from the constituent public agencies or from individual parcels or may be converted into a benefit assessment. The MWD Act provides for a charge of up to \$10 per acre (and up to \$10 on any parcel smaller than an acre) but also provides that a majority of the MWD board can approve a higher rate. Different rates may be established for parcels situated within different constituent agencies.

The following table sets forth MWD's rates for treated and untreated water for the period July 1, 1986 to date.

**SUMMARY OF WATER RATES  
(dollars per acre - foot)**

Rates Effective <u>Beginning</u>	NON-INTERRUPTIBLE Domestic, Groundwater Replenishment and Reservoir		INTERRUPTIBLE Domestic, Groundwater Replenishment, Agricultural and Reservoir <sup>(1)</sup>		INTERIM AGRICULTURAL PROGRAM <sup>(2)</sup>		EMERGENCY Domestic <sup>(3)</sup>		RECLAIMED	SEASONAL STORAGE <sup>(4)</sup>	
	Treated	Untreated	Treated	Untreated	Treated	Untreated	Treated	Untreated		Treated	Untreated
July 1, 1986	\$230	\$197	\$186	\$153	--	--	\$ 624	\$ 591	\$ 84	--	--
July 1, 1987	230	197	186	153	--	--	624	591	84	--	--
July 1, 1988	230	197	186	153	--	--	624	591	84	--	--
July 1, 1989	230	197	186	153	--	--	624	591	84	\$135	\$115
July 1, 1990	230	197	186	153	--	--	624	591	84	135	115
July 1, 1991	261	222	--	--	--	--	705	666	84	154	130
July 1, 1992	322	269	--	--	--	--	860	807	84	203	168
July 1, 1993	385	318	--	--	\$248	\$205	1,021	954	113	253	208
July 1, 1994	412	335	--	--	275	222	1,082	1,005	113	275	222
July 1, 1995 <sup>(5)</sup>	426	344	--	--	289	231	--	--	113	286	229

Rates Effective <u>Beginning</u>	FULL SERVICE <sup>(6)</sup> Domestic, Groundwater Replenishment and Reservoir		INTERIM AGRICULTURAL PROGRAM		SHIFT SEASONAL STORAGE		RECYCLED	LONG TERM SEASONAL STORAGE	
	Treated	Untreated	Treated	Untreated	Treated	Untreated		Treated	Untreated
January 1, 1997	\$431	\$349	\$294	\$236	\$290	\$233	\$113	\$290	\$233
January 1, 1998	431	349	294	236	301	244	113	290	233
January 1, 1999	431	349	294	236	312	255	113	290	233
January 1, 2000	431	349	294	236	323	266	113	290	233
January 1, 2001	431	349	294	236	334	277	113	290	233

- (1) Between April 1, 1991 and July 1, 1992 all interruptible sales were at the noninterruptible rate. The interruptible classification was discontinued effective July 1, 1992.
- (2) The Interim Agricultural Program began in fiscal year 1993-1994.
- (3) The emergency classification was discontinued effective July 1, 1995.
- (4) The Seasonal Storage Program began in fiscal year 1989-90.
- (5) These rates were effective through January 1, 1997.
- (6) The non-interruptible classification for water was changed to full service water in February 1997.

MWD levies ad valorem taxes upon all the property taxable for MWD purposes in the MWD service area, including the District's service area. From July 1, 1990, in accordance with the MWD Act, MWD must limit its tax levy to the amount needed to pay (1) the general obligation bond debt service of MWD and (2) that portion of MWD's payment obligation under its water supply contract with the State attributable to debt service on certain State general obligation water bonds. This will effectively accelerate over time the shift of total costs to water users, including the District. Taxes will cease to be levied when the general obligation bonds of MWD and the State general obligation water bonds are fully paid.

There is currently on file with the NRMSIRS and with the MSRB the most recent official statement of MWD, which includes certain information about MWD. Copies of such information can be obtained from the NRMSIRS at their addresses set forth in "Continuing Disclosure," at prescribed rates.

## District Water Facilities

The District's distribution system for potable water includes 79 water booster or pumping plants, 173 million gallons of surface storage capacity and nearly 1500 miles of pipeline ranging from 4 to 54 inches in diameter.

Wells. Locally, the District maintains 21 active domestic production wells. The wells, which supply 25% of the District's water, are listed by location, current status and 2000 production in the following table.

<u>Location and Current Status</u>	FY	Current	
	2000 Production (in af)	G.P.M.	Pumping Capacity <sup>(1)</sup> af/Day
<b>San Jacinto Basin - Cienega Canyon</b>			
No. 17 Cienega Well - (Active)	1,027	1,200	5.3
No. 26 Cienega Well - (Active)	1,254	2,000	8.8
No. 34 Cienega Well - (Active)	929	1,800	8.0
<b>San Jacinto Basin - Intake</b>			
No. 11 River Bed Well - (Active)	828	600	2.7
No. 18 Washington St. Well - (Active)	2,837	1,900	8.4
No. 14 River Bed Well - (Active)	1,369	2,450	10.8
No. 24 Howard Well - (Active)	403	324	1.4
No. 25 Fruitvale Well - (Active)	1,834	2,400	10.6
No. 27 Hewitt/Evans Well - (Active)	1,241	1,800	8.0
No. 28 Peacock/Radaker Well - (Active)	199	2,400	10.6
No. 33 Mountain Avenue Well - (Active)	1,133	1,100	4.9
<b>San Jacinto - Upper Pressure</b>			
No. 29 Quandt Well - (Active)	2,925	2,000	8.8
<b>Hemet Basin</b>			
No. 10 Gilbert Well-Ag - (Active)	23	450	2.0
No. 19 Lyon/Menlo Well-Ag - (Active)	240	750	3.3
No. 20 Oakland St. Well-Ag - (Active)	6	300	1.3
No. 23 Menlo Avenue Well - (Active)	911	950	4.2
<b>Santa Margarita Basin</b>			
No. 63 Golden Triangle - (Active)	634	450	2.0
<b>Moreno Valley</b>			
No. 44 Sunnymead Well - (Active)	705	450	2.0
<b>Perris and Meniffee</b>			
No. 55 Perris II Well - (Active)	886	587	2.6
No. 56 Perry Well - (Active)	618	873	3.9
No. 57 Folics - (Active)	795	1,056	4.7
<b>Total Production</b>	<b>20,797</b>	<b>25,840</b>	<b>114.3</b>

(1) Tested capacity can vary with changes in water table.

Source: Eastern Municipal Water District.

These wells are considered to be deep-well, production wells ranging in depth to 1,700 feet. Pumping levels for production range from 100 to 385 feet. The 21 production wells have a combined production capability of 25,840 gallons per minute ("gpm"), which equates to approximately 41,688 af per year. The District has conducted studies to determine the safe yield of the underground water basins serving these wells. Pumping from these wells is not regulated by any Federal, State of California or local authority. The development and production of future wells will depend on the safe yield of the underground basins.

Pipelines. The map on page 25 hereof provides the location of the District's major pipelines. There are 1,482 miles of District pipeline ranging in diameter from 4 inches to 54 inches. Of this 1,482 miles, 1,111 miles are distribution and 371 miles are transmission.

Pressure Zones. Due to elevations within the District varying from 1,120 to 3,160 feet, there are 58 pressure zones which provide water service at acceptable minimum and maximum pressures. The District attempts to maintain zone pressures between 40 and 90 pounds per square inch.

Each pressure zone requires pumping plants or other sources of supply for providing water at the desired pressure. Most pressure zones also have storage facilities for providing water during peak demand, and under emergency and fire flow conditions.

Storage Facilities. The District's water system has active water storage facilities located throughout the District. These facilities provide approximately 173 million gallons of storage. The active reservoirs are ground level circular steel tanks, with the exception of four small hydro-pneumatic tanks, ranging in size from 80,000 to 8,400,000 gallons. The ground level reservoirs are situated at elevations high enough to provide water by gravity flow. The reservoirs are used to store water for fluctuating hourly demands (regulating storage), fire flow demands and emergency purposes. Given these considerations it is the District's intent to manage the storage in the most efficient manner by use of the available telemetry system.

Pumping Plants. The District is required to pump almost its entire supply of water because of the elevations of MWD's filtration plants relative to the District's service area. Two pressure zones in Murrieta Hot Springs can be supplied by gravity from the Skinner Filtration Plant.

There are currently 79 domestic water pumping stations in operation. Connected horsepower of the pumping plants varies from 7.5 to 2,510 horsepower with capacities ranging from 112 to 68,000 GPM.

The District currently has two major pumping plants which are essential in the supply of MWD water. The most significant, Mills Pumping Plant, delivers approximately 52 percent of the total supply on a maximum demand day. The combined capacity of the pumps is 98 MGD; however, system conditions limit the plant's capacity to 67 MGD under maximum operating conditions.

### **Metropolitan Water District Facilities**

Colorado River Water ("CRW") is transported from Lake Havasu through the Colorado River Aqueduct to the terminus at Lake Matthews in Riverside County. State Water Project water is delivered to MWD at Lake Perris, terminus via the 444 mile California Aqueduct. Short of the terminus, MWD takes water from the Santa Ana Valley Feeder into its Mills Treatment Plant.

The District has access to this MWD imported water through three active connections with MWD facilities. The connections are capable of flows of approximately 100 million gallons per day ("MGD") from MWD's Mills Filtration Plant, 52 MGD of Colorado River water from the Perris II Pumping Plant and 97 MGD from MWD's Skinner Filtration Plant. As of June 29, 1993, the District was no longer permitted to utilize untreated CRW. The CRW connection is on a standby listing with MWD for use in emergency situations.

Two major connections connect the District to supplies from MWD's Mills Filtration Plant and MWD's Skinner Filtration Plant. The connection at MWD's Mills Filtration Plant is the District's primary source of filtered water. Due to the elevation of the treatment plant, water must be pumped into the District's system. The Mills Filtration Plant, which is owned and operated by MWD, can deliver up to 100 MGD to the District under maximum operating conditions (one MGD equals approximately 3 acre feet). District facilities are only capable of pumping approximately 67 MGD into the transmission-distribution system via the Mills Pumping Plant. In addition, the District obtains a blend of filtered State Water Project and Colorado River water from MWD's Skinner Filtration Plant through a connection at Auld Road and Leon Road. The Skinner Filtration Plant can deliver up to 97 MGD under maximum operating conditions. However, existing District facilities can deliver only 58 MGD into the transmission-distribution system. *See WATER RESOURCES, FACILITIES AND USAGE — The Metropolitan Water District of Southern California.*

## Metropolitan Water Supplies

As discussed above, approximately 75% of the water sold by the District is imported from MWD. For the fiscal year ended June 30, 2000, MWD supplied the District approximately 66,564 af, which represented approximately 3.2% of MWD's total deliveries. MWD is projecting increased water usage in its service area; and MWD constituent agencies, which use MWD water to supplement their own local water supplies, can be expected to increase their purchases of MWD water if their local water supplies are reduced. As of January 15, 2001, California reservoirs were at 77% of capacity. This equates to 119% of the annual average on this date.

If a shortage should arise, legal issues exist as to whether different California Water Code provisions should be invoked to require reasonable regulations for the allocation of water in time of shortage. Any curtailment would likely be accompanied by an increase in MWD water charges to its constituent agencies and consequently could necessitate an increase in the District's water rates to District customers. (See, **HISTORICAL FINANCIAL OPERATIONS - Certain Limitations on Taxes and Other Revenue Sources.**)

## Groundwater Supplies

The District produces 25% of its total domestic water supply from 14 wells located in the Hemet and San Jacinto Basins, and 4% of its total domestic water supply from other wells located elsewhere in the District. These groundwater basins also provide water for the cities of Hemet and San Jacinto, The Lake Hemet Municipal Water District, and private well owners (primarily agricultural uses). Ground water uses in these basins have not been adjudicated and pumping is not regulated by any Federal, State or local authority.

The San Jacinto and Canyon Basins currently produce approximately 47,500 af per year and the Hemet Basin 13,200 af per year (counting all producers). Over the past 20 years the San Jacinto and Hemet Basins have experienced a significant decline in water level. Future growth within the District's service area will put increasing pressure on local groundwater, emphasizing the need to optimally manage and augment this important domestic water supply.

The District has adopted a Groundwater Management Plan for the West San Jacinto groundwater basin and is rapidly implementing a groundwater development and management program throughout a large portion of its service area. The intent of this program is to increase local groundwater yields by identifying useable groundwater currently under utilized, determining geohydrological and water quality parameters, and developing groundwater management strategies and facilities necessary for optimal use.

These programs include the following elements:

- 1) Brackish Groundwater Desalination - facilities for a 3,400 af per year desalter are currently under design and there is a potential to desalinate up to 7,600 af per year.
- 2) Water Harvesting - One project to capture runoff during storm events have been identified. This project will produce over 700 af per year of harvested water for recharge of local groundwater basins. This project will be further expanded upon resolution of water rights issues in the future.
- 3) Groundwater Recharge - In the past five years, the District has purchased and recharged the San Jacinto groundwater basin with approximately 4,000 af of water provided by MWD under its seasonal storage program and demonstrated its utilization in the western portion of the District. Using local groundwater basins to store imported water available during the winter months for summer use has tremendous potential to increase groundwater yields.
- 4) Recycled Water - Recycled water is fully utilized during summer months. In winter months, the excess recycled water can be used to augment natural recharge and increase groundwater basin yield.
- 5) Groundwater Management - The District is working with water agencies, municipalities, and private well owners in the Hemet and San Jacinto Basins to develop and implement a cooperative groundwater management plan. Such a comprehensive groundwater management plan will provide for the protection and enhancement of water quality of the basins and increase yields of the said basins.

In the future, programs such as these will substantially increase local groundwater yields, and thereby decrease the District's level of dependence on imported water.

### **Quality of District's Water**

The District receives treated water from MWD which meets all current requirements of the Federal Safe Drinking Water Act and regulations of the California Department of Health Services.

Groundwater in the San Jacinto Basin is of excellent quality and the District's domestic wells in that basin have no chemical constituents exceeding maximum contaminant levels (MCL) as set forth by Federal and State regulations. District wells in the Hemet, Murrieta, and Perris Sub-basins produce water of good to excellent quality. Four wells located outside the Hemet/San Jacinto Valley are used to augment water purchased from MWD. Of these four wells, two wells (Well #55 and Well #56 in the Perris area) contain high carbon dioxide levels, one (Well #57 in Perris) has high total dissolved solids (TDS) counts, and one (Well #44 in Moreno Valley) has high nitrate counts. The trace amounts of volatile organic compounds found in these wells, are at levels significantly below the MCL. High carbon dioxide gas wells are degassed in open tanks prior to entering the system. High nitrates and TDS wells have been successively treated by blending with MWD water.

High nitrate levels are found throughout Southern California groundwater basins. The District continues to study the basins within its geographical area with respect to conceptual groundwater modeling, recharge extractions, conjunctive use management, and various other data collection needs. Much of the Hemet and Salt Creek Basin contains natural deposits of boron and high TDS, which render the groundwater within these areas unusable unless treated.

The California Office of Environmental Health Hazard Assessment has recently proposed public health goals related to hexavalent chromium (chromium 6), a groundwater contaminant. The District's groundwater does not show any sign of chromium 6 contamination. The recently proposed public health goals are not expected to result in any compliance costs to the District. Also, in January 2001, the USEPA adopted a new drinking water rule with respect to arsenic contaminate levels. The new rule, which applies to all community water systems, lowers the maximum contaminate level for arsenic to 10 parts per billion. The new rule must be complied with within five years from the date of publication of the rule. The District does not expect the new rule will result in any compliance costs.

### **Water Production**

The term "water production" describes the quantity of water the District obtains from all sources to meet its consumers' needs. These sources include the District's wells and District purchases from MWD. It also includes losses incurred between the source and the ultimate use by the consumer. These losses may result from pipeline breaks, leakage, evaporation from operating reservoirs, and metering discrepancies. When the District was originally formed, the total production mix was 20% domestic and 80% irrigation. With the decline of agriculture and increased regional urbanization, the production mix is now 90% domestic and 10% irrigation. The economics of production costs prohibited the growing of many low cash crops formally planted in the District and ultimately resulted in reducing the agricultural demand. Continued persistent agricultural demands may be contingent on the availability of recycled water. Although retail domestic production slightly increased in FY 1996/97, an above average rainfall and mild weather conditions during the spring months reduced demand in FY 1997/98 significantly. However, FY 1998/99 saw domestic sales rise once again with an increase of 15.8% from the previous year's total and FY 1999/00 added another 15.7% increase over 1998/99 totals. It is speculated that the combination of factors such as increased number of dwellings in the District, warm summers, and a strong economy contributed to this steady increase in demand. Water production of the District for fiscal years ended June 30, 1996 to June 30, 2000 is described below:

**EASTERN MUNICIPAL WATER DISTRICT  
WATER PRODUCTION  
(In Acre Feet)**

Fiscal Year Ended <u>June 30</u>	<u>Domestic</u>	<u>Irrigation</u>	<u>Total Production</u>
1996	67,355	5,045	72,400
1997	70,750	6,736	77,486
1998	60,515	4,669	65,184
1999	69,286	6,234	75,520
2000	79,133	8,319	87,452

Source: Eastern Municipal Water District.

The table below sets forth the estimated annual amount of water consumed for domestic purposes in the District's service area for the fiscal years ended June 30, 1996 to June 30, 2000. The water needed to satisfy these domestic consumption levels was furnished by the District.

**WATER USE WITHIN DISTRICT'S SERVICE AREA  
Annual Domestic Consumption**

Fiscal Year Ended <u>June 30</u>	<u>Usage (af)</u>	<u>Population<sup>(1)</sup></u>	<u>Gross Daily Per Capita Demand (Gallons<sup>(2)</sup>)</u>
1996	63,408	259,000	219
1997	66,595	267,000	223
1998	57,693	289,000	178
1999	63,939	300,000	190
2000	75,243	307,000	219

(1) Estimated by Eastern Municipal Water District.

(2) Calculated based on usage multiplied by 325,900 gallons, divided by population, divided by 365 days per year.

Source: Eastern Municipal Water District.

**Water Sales to Retail Customers**

The District's ten largest retail agricultural customers account for approximately 3% of the District's total water sales, and the District's ten largest retail domestic customers account for approximately 2% of the District's total water sales. These figures do not include recycled water users.

For the fiscal year ending June 30, 2000, the District had 83,453 domestic active billing accounts and 186 active agricultural/irrigation accounts. However, the number of billing accounts does not represent the actual number of District customers since one billing account can encompass multiple users or a multiple number of sites served. For example: one apartment complex can equal one billing account; in addition, if one developer owns two or more apartment complexes, the billing for all such complexes may be aggregated into a single billing account charged to that developer. A similar result may be obtained with respect to irrigation billing accounts.

**Water Sales to Wholesale Customers**

The following table indicates water sales to the District's Wholesale Customers.

**EASTERN MUNICIPAL WATER DISTRICT  
WATER SALES TO WHOLESALE CUSTOMERS**  
(in acre-feet)

<u>Customers</u>	<u>FY 1999 Annual Usage</u>	<u>FY 2000 Annual Usage</u>
Elsinore Valley MWD	7,175.1	10,827.7
City of Perris	1,681.8	1,925.7
City of Hemet	312.2	441.8
City of San Jacinto	154.6	0.0
Nuevo Mutual Water:		
Domestic	0.0	36.1
Lake Hemet MWD:		
Domestic	65.1	212.7
Irrigation	209.5	852.3
Western Municipal Water Dist.	<u>338.5</u>	<u>790.5</u>
Total	9,936.8	15,086.8

Source: Eastern Municipal Water District.

Water deliveries by the District, excluding recycled water sales, for each of the fiscal years ended June 30, 1996 to June 30, 2000 are shown in the table below. The District's water deliveries are equal to the District's water production (*see, Water Production*, above) less losses experienced in delivering such water to the consumer. This table reflects a shift in water deliveries from primarily agricultural to primarily domestic sales.

**EASTERN MUNICIPAL WATER DISTRICT  
WATER DELIVERIES**  
(Acre Feet)

<u>Fiscal Year Ended June 30</u>	<u>Domestic</u>	<u>Agriculture</u>	<u>Total Deliveries</u>
1996	63,408	4,749	68,157
1997	66,595	6,341	72,936
1998	57,693	4,451	62,144
1999	63,939	5,753	69,692
2000	75,243	7,910	83,153

Source: Eastern Municipal Water District.

Agricultural water use was 9.5% of total water deliveries for the fiscal year ended June 30, 2000.



## WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE

### Wastewater Facilities

The District is currently divided into five sewer service areas—Hemet-San Jacinto, Moreno Valley, Sun City, Temecula Valley and Perris Valley—for purposes of transmission, treatment and disposal of wastewater. The Sun City plant has been deactivated as a cost reduction measure and all flows are treated at the larger Perris facility. Each service area is served by a single regional water reclamation facility (“RWRP”), for which costs and methods of treatment vary. The facilities are capable of treating 49 MGD of wastewater and serve approximately 439,000 people. They are linked to a network of nearly 1,200 miles of pipeline and 35 active lift stations.

### Wastewater Facility Usage

Wastewater enters the District’s facilities from three sources: 1) wastewater which is discharged into the District facilities from residences (e.g., houses and apartments) and 2) wastewater which is discharged by businesses similar to residential discharge (e.g. office buildings, retail outlets and warehouses); and 3) wastewater which is discharged by users which may add contaminants or pollutants to the wastewater (e.g. restaurants, x-ray and photo processors, carwashes, vehicle repair facilities, dry cleaners and various industrial businesses).

The use of the sewer facilities is monitored by the District’s Source Control Division. The Division is responsible for enforcing the District’s Sewer Use Ordinance, which requires all dischargers to meet California and Federal requirements for contaminants and pollutants. By monitoring discharges and enforcing pretreatment requirements, the Division guarantees that the wastewater entering District facilities is of a quality suitable for all reclamation uses and that the biosolids regulations are met.

The following table identifies permitted wastewater producers that may have potential impact on the beneficial use of recycled water and municipal sludge. These are closely monitored by the Source Control Division:

#### PERMITTED WASTEWATER PRODUCERS

<u>Industrial User (by area)</u>	<u>Industrial Flow (1000 gal./day)</u>	<u>Total Flow<sup>(1)</sup> (1000 gal./day)</u>
Hemet-San Jacinto		
Deutsch ECD	4.42	11.25
Hemet Valley Hospital	7.10	22.10
Moreno Valley		
Jaco Oil	3.60	3.60
Sun City – None		
Temecula Valley		
Exotic Materials Inc.	1.58	7.56
Guidant	5.80	19.50
Hexfet International Rectifier	0.80	16.45
Interventional Technology	0.33	1.70
Magnecomp	1.40	7.00
APC Technologies	0.00	0.05
Channel Commercial Corp.	0.10	5.63
Stretch Forming Corp	2.69	5.92
Perris Valley		
Matthews International	0.00	0.49
Pacific Western Extruded Plastics	2.38	10.70

(1) Includes domestic discharge.

Source: Eastern Municipal Water District.

The Source Control Division also regulates and inspects over 1,400 others which are issued authorization to discharge. The Division also administrates residential pollution prevention activities to protect the sewer facilities and the reclamation plants.

Residential users not connected to the sewer are provided service through the liquid waste hauler program where septic haulers can dispose of the material in an economical manner at the Sanderson Lift Station in the Hemet-San Jacinto area. These septic haulers are regulated though permits issued by the Division.

### District Recycled Water Supply

The policy of the District is to promote the use of recycled water to provide for the conservation and reuse of all water resources and to utilize this resource for any approved purpose to the maximum extent possible under the laws of the State of California.

The District currently generates approximately 33 MGD of effluent at its four active regional water reclamation facilities (each referred to herein as an "RWRF"). The amount of effluent is expected to grow to 38 MGD by the year 2005. Approximately 66% of the effluent currently generated is sold to agricultural and irrigation users. These customers include 60 agricultural sites, 4 golf courses, 21 landscape irrigation sites, 1 wholesale customer, 4 private duck clubs, 1 demonstration wetland project, and 1 wildlife area. During 1999/00, sales of recycled water in the District totaled \$1,102,441.

Unsold recycled water is transferred to storage ponds and utilized to meet peak demands or is recycled by groundwater recharge. During 2001, markets will be available for nearly 100% of the anticipated recoverable recycled water production as new distribution systems are completed. However, it is estimated that only 70-75 percent of the total recycled production will be recovered and available for sale. Systems under design will serve additional schools, parks, a cemetery, golf courses, open space, streetscapes and agricultural uses.

### Recycled Water Facilities

In addition to the five RWRFs, the District's recycled water facilities include 123 miles of transmission and distribution pipelines, 15 pumping facilities and approximately 6,764 acre feet of storage and percolation ponds. The Sun City, Moreno Valley, Perris Valley and Temecula Valley RWRFs have tertiary treatment capability and the Hemet/San Jacinto RWRF has secondary treatment capability. The design capacity, average flow and average percentage of daily flows of each RWRF is provided below.

#### REGIONAL WATER RECLAMATION FACILITIES

RWRF	Design Capacity (MGD)	Average Flow (MGD) as of 11/30/00	Average % Daily Flows
Hemet-San Jacinto	11.0	6.8	62%
Sun City	3.0	0.0 <sup>(1)</sup>	0
Perris Valley	11.0	7.6	69
Moreno Valley	16.0	11.5	72
Temecula Valley	8.0	6.7	84
Total	49.0	32.6	67%

(1) 2.5 MGD diverted to Perris Valley RWRF.

Source: Eastern Municipal Water District.

### Future Application of Recycled Water

The District has identified more than 75 potential recycled water markets within proximity of existing District RWRFs. The types of markets identified include agricultural uses, golf courses, sod farms, wetlands, cemeteries, commercial and industrial landscaping, and park and school turf. Potential demand for these identified uses cannot be met by projected available supply (as shown below). Supplemental supplies from poor quality

groundwater, or purchased from another agency, are alternatives being explored by the District to serve this projected demand.

The total projected recycled water supply, available supply and anticipated demand for the District in MGD and by RWRf are shown below. (One MGD equals approximately 3 af.)

**FUTURE RECYCLED WATER DEMAND AND SUPPLY**  
(in MGD)

RWRf	2000			2005			2010		
	Supply	Available	Demand	Supply	Available	Demand	Supply	Available	Demand
Hemet/San Jacinto	7.5	6.0	11.5	7.5	6.0	15.0	7.5	6.0	19.5
Moreno Valley	9.5	6.8	13.5	13.4	10.7	17.5	14.9	11.9	22.7
Perris Valley	9.0	6.4	18.5	9.0	7.2	24.0	9.3	7.4	31.2
Sun City <sup>(1)</sup>	0.0	0.0	0.0	0.0	0.0	0.0	2.0	1.9	1.9
<u>Temecula Valley</u>	<u>6.5</u>	<u>5.5</u>	<u>16.0</u>	<u>8.4</u>	<u>7.6</u>	<u>21.0</u>	<u>10.4</u>	<u>9.4</u>	<u>27.3</u>
Total	32.5	24.7	59.5	38.3	31.5	77.5	44.1	36.6	102.6

(1) Flows from Sun City RWRf are currently being diverted to Perris Valley RWRf.

Source: Eastern Municipal Water District.

During the planning period, the projected regional demands for recycled water exceed the available supply in some service areas. These regional imbalances will be lessened when all five plants are linked to a District-wide transmission and distribution system under the District's Capital Improvement Program. (See **THE CAPITAL IMPROVEMENT PROGRAM - Description of Capital Improvement Program - Recycled Water System Improvements**, below.)

In addition, the District's Resource Development Branch has conducted studies with the U.S. Bureau of Reclamation, the U.S. Fish and Wildlife Service, the U.S. Environmental Protection Agency, and several universities to explore effluent treatment through the use of constructed wetlands and the subsequent injection and recovery of potable water.

**THE CAPITAL IMPROVEMENT PROGRAM**

**Background**

In 1990, the District completed a study to identify District capital improvement requirements for the Water and Sewer System to the year 2005. This Water and Wastewater Facility Master Plan has recently been updated to reflect new requirements up to the year 2020. These updates reflect the latest growth projections available to the District and define the facilities that will be required to meet the needs of this growth. Although the growth projections have been revised downward from the 1990 study, the population is expected to double from its current size of nearly 440,000.

This Master Plan becomes the document from which the District develops its annual Capital Improvement Program, (CIP). This CIP spans five years and identifies projects from the Master Plan that are currently required, adds projects where necessary, and defers projects when possible. This plan schedules the necessary construction by project year and the financing necessary to meet this schedule.

The projects on the CIP are tracked during the current construction year and the entire five year program is reviewed and revised on an annual basis by the planning department and the Executive Committee. During the annual review, projects are added or deleted based on the current construction schedules, and any newly identified requirements are prioritized into the respective construction years.

## Description of Capital Improvement Program

The Capital Improvement Program's project list includes projects included in the construction budget for the fiscal year ended June 30, 2000 as well as projects expected to be funded in fiscal years ended June 30, 2001 through 2004.

In addition to the completion of the "1993A Projects" funded from the 1993A Certificates, the Capital Improvement Plan includes the following major projects through the fiscal year 2003/04:

1. Water System Improvements: In order to increase the reliability of supply and provide for the increasing demand on the system, the District intends to invest in the following major projects; Water pipelines to increase distribution capabilities and maximize system capacity (\$51.5 mill); completion of its Desalination Project (\$13.0 mill); Water Filtration Plant (\$20.0 mill); Add/Replace Wells (\$12.8 mill); Increase Water Storage (\$12.2 mill); Increase Pumping Plant Capacity (\$8.4 mill); Complete SCADA and Communications to operating facilities (\$5.6 mill); Various System Betterment and Improvement Projects (\$15.6 mill); and completion of various projects begun in prior years (\$21.6 mill).
2. Wastewater System Improvements: Major projects include upgrades and/or expansions to four of the District's five wastewater reclamation facilities. The projects are; Temecula Valley Regional Water Reclamation Facility (RWRf) 4 MGD Expansion (\$29.3 mill); Moreno Valley RWRf Tertiary Expansion (\$10.0 mill); Perris Valley RWRf Upgrades and Tertiary Expansion (\$5.9 mill); and Hemet/San Jacinto RWRf Upgrades (\$3.2 mill). Other projects include; Lift Station replacements/upgrades (\$7.0 mill); Sewer Pipelines (\$1.1 mill); various System Betterment and Operational Necessity Projects (\$2.0 mill); and various projects begun in prior years (\$7.8 mill).
3. Recycled Water System Improvements: Major investments have been made in this area in prior years and the next five years' investment is expected to be minimal, assuming regulatory issues regarding disposal do not impact the District. These projects consist of; Increasing pond storage capacity (\$0.9 mill); adding a Tank (\$1.5 mill); and various System Improvements (\$1.4 mill).

## Description of 2001B Project

The 2001B Project consists of: (i) the construction of improvements to the Moreno Valley Regional Water Reclamation Facility (MVRWRf) and appurtenances thereto; (ii) the construction of improvements to the Sanderson Lift Station and appurtenances thereto; (iii) the construction of the Perris Water Treatment Plant and appurtenances thereto; and (iv) the construction of the Menifee Desalter Plant and appurtenances thereto. Below is a brief description of each.

1. Sewer Service Area 32 (Moreno Valley)

### Moreno Valley Regional Water Reclamation Facility – Tertiary Plant Expansion to 15.8 MGD

The expansion of the MVRWRf's tertiary plant from 8.0 MGD to 15.8 MGD is required to meet increases in plant flow and the requirements of the Department of Health Services (DOHS) Title 22. The MVRWRf serves the increasing population of the Moreno Valley area, in the northwest portion of the District. The total estimated cost of this expansion is \$10,000,000. It is anticipated that the expansion will be completed December 2002.

2. Sewer Service Area 31 (Hemet/San Jacinto)

### Sanderson Lift Station Replacement

The Sanderson Lift Station is 35 years old and during peak flows, standby pumping capacity is not available. Additionally the wet well is the same elevation as tributary sewer pipelines, causing incoming interceptor sewers to back up. The replacement lift station will provide additional pumping capacity and a deeper wet well to alleviate surcharge of upstream sewer pipelines. The total estimated cost of this replacement is \$5,000,000. It is anticipated that the replacement will be completed October 2002.

3. Water Service Area 41 (Mills Treatment)

Perris Water Treatment Plant

The construction of the 10 MGD Perris Water Treatment Plant (expandable to 50 MGD) will provide filtered and treated water to meet growing customer demands in the Perris, Moreno Valley, and Sun City areas. The total estimated cost of this plant is \$20,000,000. It is scheduled for completion by June 2002.

4. Water Service Area 41 (Mills Treatment)

Menifee Desalter Plant

The construction of the Menifee Desalter Plant 3 MGD (expandable to 6 MGD) will provide treatment for brackish groundwater (TDS of 1000 ppm and higher). The finish water product will supplement imported water supplies from the Metropolitan Water District of Southern California to serve the Perris/Sun City areas. The total estimated cost of the plant and associated extraction wells, collection pipelines, and brine disposal pipelines is \$31,000,000. Partial funding has been provided by the California Agricultural Drainage Water Management Loan Program (\$11,600,000). District funds are available to cover another \$9,400,000, leaving \$10,000,000 required to complete this program. It is anticipated that the plant and associated facilities will be online by November 2001.

**Capital Improvement Program Financing Plan**

The construction requirements of the Capital Improvement Program through the fiscal year ended June 30, 2004 are estimated to total \$230,400,000 and are summarized in the table below. All estimates include construction costs, engineering, administration and right-of-way acquisition and are calculated in 2000 dollars.

**CAPITAL IMPROVEMENT PROGRAM  
CAPITAL REQUIREMENTS**

Fiscal Year Ended <u>June 30</u>	<u>Water</u>	<u>Sewer</u>	<u>Facilities</u>	Recycled <u>Water</u>	Annual <u>Total</u>
2000 <sup>(1)</sup>	\$ 30,800,000	\$ 9,400,000	\$0	\$0	\$ 40,200,000
2001	44,300,000	19,900,000	0	1,200,000	65,400,000
2002	19,300,000	29,400,000	0	1,600,000	50,300,000
2003	33,000,000	5,800,000	0	600,000	39,400,000
2004	32,900,000	1,800,000	0	400,000	35,100,000
<b>Total</b>	<b>\$160,300,000</b>	<b>\$66,300,000</b>	<b>\$0</b>	<b>\$3,800,000</b>	<b>\$230,400,000</b>

(1) Includes new and prior year encumbered projects.

Source: Eastern Municipal Water District

The revenues required to support these capital projects will be gathered from a number of different sources. The estimated revenues and their sources are provided in the following table.

**CAPITAL IMPROVEMENT PROGRAM  
FINANCING PLAN**

Fiscal Year Ended <u>June 30</u>	Connection Fees & Other Non <u>Operating Funds<sup>(1)</sup></u>	General Obligation <u>Bonds<sup>(2)</sup></u>	<u>COPs<sup>(3)</sup></u>	Grants and <u>Loans<sup>(4)</sup></u>	<u>Total</u>
2000 <sup>(5)</sup>	\$ 39,200,000	\$0	\$ 1,000,000	\$0	\$ 40,200,000
2001	51,900,000	0	4,600,000	8,900,000	65,400,000
2002	15,300,000	0	35,000,000	0	50,300,000
2003	24,400,000	0	15,000,000	0	39,400,000
2004	35,100,000	0	0	0	35,100,000
Total	\$165,900,000	\$0	\$55,600,000	\$8,900,000	\$230,400,000

- (1) These fees and charges are for both water and sewer and are predominantly paid by developers. A portion of this is generated from non-operating revenues set aside into the Replacement & System Betterment Reserve. This estimate constitutes 72% of the capital requirements through June 30, 2004.
- (2) It is not anticipated that there will be a need to issue amounts of General Obligation Bonds over the financing period. However, in the event that other sources of revenue are not realized, this option is still available.
- (3) Certificates of Participation ("COPs") represent 24% of capital requirements through June 30, 2004. The 2000 and 2001 funds represent the balance of the 1993A proceeds and the 2002 and 2003 funds represent the 2001B COP proceeds.
- (4) Grants and loans represent 4% and is the balance of funding from state loan programs entered into in prior years.
- (5) Reflects funding for projects committed and encumbered prior to June 30, 2000.

Source: Eastern Municipal Water District

Completion of the Capital Improvement Program is contingent on growth in the District. The calculations used to generate the revenue stream to support the capital improvements was based on an average growth rate of approximately 4% per year. In the event the District does not experience the projected growth, the Capital Improvement Program would be modified to address the then-known requirements; however, because of the three or four years required to design, fund and construct major facilities, construction must continue even during periods of slow growth with the expectation that long-term growth will approximate projections.

**Environmental Considerations**

Projects undertaken by the District, including, without limitation, those undertaken in the Capital Improvement Program, are generally subject to the California Environmental Quality Act ("CEQA"), as amended, Sections 21000-21178.1 of the California Public Resources Code. Certain projects involving the participation of the Bureau of Reclamation, Department of the Interior, or other Federal agencies are also subject to the National Environmental Policy Act of 1969 ("NEPA"), as amended (42 U.S.C. § 4321).

Under CEQA, a project which is to be carried out or approved by a public agency must comply with a comprehensive environmental review process, which may include the preparation of an Environmental Impact Report ("EIR"). The EIR reflects not only an independent technical analysis of the project's potential impacts, but also the comments of responsible agencies with jurisdiction over the project and the comments of interested members of the public. Contents of the EIR include a detailed statement of the project's significant environmental effects; any such effects which cannot be avoided if the project is implemented; mitigation measures proposed to minimize such effects; alternatives to the proposed project; the relationship between local and short-term uses and long-term productivity; any significant irreversible environmental changes which would result from the project; the project's growth-inducing impacts; and a brief statement setting forth the agency's reasons for determining that certain effects are not significant and hence do not require discussion in the EIR. If the lead agency determines that the project itself will not have a significant effect on the environment, it may adopt a written negative declaration. Once the agency approves or determines to carry out a project, either following the EIR process or after adopting a negative declaration, it must file notice of such determination with the clerk of the county. Any action or proceeding challenging the agency's determination must be declared in writing to the lead agency within 30 days following the filing of such notice.

## HISTORICAL FINANCIAL OPERATIONS

### Operating Revenues

Water and Sewer Charges. Water and sewer rates are established by the Board and are not subject to regulation by the California Public Utilities Commission or by any other local, state or Federal agency. The District bills monthly on a meter reading and billing system for both water and sewer service. Actual usage of agricultural users and domestic users with meters over two inches is determined monthly. Payments are due upon receipt and become delinquent after 15 calendar days from billing date. When a bill for service has become past due and a discontinuance of service notice for nonpayment has been issued, service may be discontinued if the bill is not paid within the time required by such notice. It is the District's belief that water and sewer charges are not fees for purposes of Proposition 218 since such fees are a result of service and not property ownership. However, in interpreting Proposition 218, a court could conclude to the contrary. For a summary description of the provisions and potential effect of Proposition 218 on the District, see, **HISTORICAL FINANCIAL OPERATIONS - Certain Limitations on Taxes and Other Revenue Sources.**

Under the Master Resolution, the District is required to fix rates which are reasonably fair and nondiscriminatory and which will be at least sufficient for the payment of all amounts to be payable from Net Water and Sewer Revenues in each Fiscal Year and at least equal to (i) 115% of Debt Service on all Parity Obligations plus the amount required to be deposited to the Operating Reserve Fund and (ii) 110% of Debt Service on all Parity Obligations and Subordinated Obligations plus the amount required to be deposited to the Operating Reserve Fund.

The District's water rates for well production (which is supplied on a wholesale basis to the City of Hemet and Lake Hemet Municipal Water District) were \$176.00 per af for entitlement and \$186.00 per af for excess in 2000. The District wholesale rate in 2000 for imported water was \$442.00 per af for Elsinore Valley Municipal Water District; \$525.25 per af for the City of Perris and the Nuevo Water Company. The District rate for secondary treated recycled water used for agriculture was sold at \$25.50 per af and the tertiary treated recycled water used for parks and golf courses was sold at \$133.00 per af. The District average sewer service rate was \$15.18 per month in fiscal year 2000. The District's wholesale and retail water rates and monthly sewer service charges are the most easily adjusted source of revenue and the Board has historically changed the rate as necessary to pay for operations and capital needs not met by other revenue sources. On November 20, 1996, the Board approved an increase to the sewer rates of approximately 2.9%, effective January 1, 1997. Although the wholesale water rate from MWD increased by \$5.00 per af, no water rate increase was recommended in 1997. These rates are still in effect and no rate changes have been recommended for the fiscal year 2000/01.

Although rates vary throughout the District, the following water and sewer rates are representative of those in effect within the District:

#### WATER AND SEWER RATES Effective January 1, 2001

Service Area	Water <sup>(1)</sup>			Sewer <sup>(2)</sup>	
	Commodity Charge per 100 Cubic Feet	Daily Charge	Average Monthly <sup>(1)</sup>	Daily Charge	Average Monthly <sup>(2)</sup>
Perris Valley	1.458	.198	32.18	.697	20.91
Sun City	1.458	.238	33.38	.464	13.92
Fruitvale	.859	.198	21.40	.424	12.72
Diamond Valley	1.583	.198	34.43	.424	12.72
Moreno Valley	1.497	.198	32.89	.442	13.26
Temecula Valley	1.384	.198	30.85	.641	19.23

(1) By example, a water billing for 1,800 cubic feet (18 units) of water for a period of 30 days in the Perris Valley would be calculated as follows:  $(18 \times 1.458) + (30 \times \$ .198) = \$32.18$ .

(2) By example, a sewer billing for 30 days of sewer service in the Perris Valley would be calculated as follows:  $30 \times .697 = \$20.91$ .

Source: Eastern Municipal Water District.

The following table provides a summary of water and sewer service rates for the period July 1, 1995 to date.

**SUMMARY OF WATER AND SEWER SERVICE RATES  
(Dollars Per Acre - Foot and Average Monthly/Service Rates)**

Fiscal Year ending June 30	Water <sup>(1)</sup>	Sewer Service
1996	634.44	14.72
1997	643.61	15.36
1998	643.09	15.38
1999	642.81	15.43
2000	641.97	15.18

(1) Weighted average of retail domestic sales using MWD water.

Source: Eastern Municipal Water District.

The following table provides a summary of the District's gross revenues from water and sewer service and recycled water for the fiscal years ended June 30, 1996 through June 30, 2000.

**WATER SALES AND SEWER SERVICE  
GROSS REVENUES**

Fiscal Year Ended June 30	Water Sales	Sewer Service	Recycled Water	Total
1996	45,549,894	21,393,178	779,660	67,722,732
1997	47,680,036	22,615,071	764,848	71,059,955
1998	42,221,945	23,665,927	645,259	66,533,131
1999	48,589,630	25,020,585	1,078,322	74,688,537
2000	54,018,590	25,361,569	1,102,441	80,482,600

Source: Eastern Municipal Water District.

**Non-Operating Revenues**

Standby (Availability) Charges. Under the Law, the District may levy and collect an annual water standby charge (also referred to as an availability charge), as well as an annual sewage and wastewater service standby or availability charge, on land within the boundaries of the District to which water and sewage and wastewater services, respectively, are made available by the District, whether or not the water or service is actually used. Each such charge may not exceed \$10 per acre per year for each acre (or parcel less than an acre) within the District, except that it may be \$30 per acre per year for each such acre or parcel if any charge in excess of \$10 per acre or parcel is used for the purposes of the particular improvement district in which the acre or parcel is located.

The Law requires that standby or availability charges be approved by ordinance, which is subject to referendum, after public notice and hearing on the proposed charge. At its meeting on August 2, 2000, the District's Board held a public hearing and again adopted a resolution setting forth its intention to levy a water standby charge and a sewage and wastewater availability charge as described above, and the charges became effective immediately.

The District currently levies these charges on the land within 15 of its water special improvement districts, and 16 of its sewer special improvement districts and 3 of its combined water and sewer special improvement districts, as well as a charge on land within the entire District. The charges for the various special improvement districts for Zone 1 (that is, areas where service is being made reasonably available, either directly by the District or indirectly by a city, another water district or a water company) vary from a \$1.00 to \$15.00 per acre annual water charge and a \$7.50 to \$15.00 per acre annual sewer charge. The District has established 61 separate special



improvement districts, of which 32 are water special improvement districts, 23 are sewer special improvement districts and 6 are combined water and sewer special improvement districts.

The District may, under circumstances specified under the Law, utilize an alternative procedure for fixing water or sewer standby or availability charges which does not limit the amount of such charges. The District has not utilized such procedure to date.

Standby charges are classified as assessments by the terms of Proposition 218. For a summary description of the provisions and potential effect of Proposition 218 on the District, *see*, **HISTORICAL FINANCIAL OPERATIONS - Certain Limitations on Taxes and Other Revenue Sources**.

Connection Fees and Sewer Frontage Charges. The District has statutory authority to fix and impose upon the customers of the District one-time water and sewer connection fees and one-time water and sewer frontage charges.

Connection fees includes water and sewer plant capacity charges, water and sewer back-up charges and water and sewer fees, each of which is charged on a per equivalent dwelling unit ("EDU") basis. As of January 1, 2001, the District's sewer connection fee is \$3,845.00 per EDU; and as of January 1, 2001, the District's water connection fee is \$1,510.00 per EDU. In addition to the connection fees, the District levied a \$18.00 per foot water frontage charge and a \$15.00 per foot sewer frontage charge. These fees are escalated annually according to a regional cost of construction index.

Although these one-time connection fees and water and sewer frontage charges constitute current Water and Sewer Revenues of the District, these amounts are budgeted by the District for application to its general construction fund and used to pay the costs of its capital improvements.

Taxes. The District is expressly empowered under the Law to levy taxes on all taxable property within its boundaries for the purpose of paying the bonded indebtedness of its special improvement districts (*see*, **THE DISTRICT - Debt Structure of the District**) and, subject to certain limitations in the Law, the California Revenue and Taxation Code, and the California Constitution, for other District purposes (*see*, **Certain Limitations on Taxes and Other Revenue Sources**, below). The District currently levies taxes only to service bonds of its special improvement districts. Moneys that are received from the District's share of the Riverside County one percent tax levy are available, but are not required to be used, to pay Maintenance and Operation Costs of the Water and Sewer System. These revenues have been reduced as a result of legislative action (*see*, **Certain Limitations on Taxes and Other Revenue Sources**, below).

Only those special improvement districts receiving tax revenue at the time Proposition 13 became effective are entitled to receive a share of the one percent County general purpose property tax levy, based on the allocation procedure under California law. In each of the past three years the District has received approximately \$9,940,000 in property tax revenue.

The tax rate levied to service outstanding general obligation bonds of the special improvement districts varies among the special improvement districts within the District. Assessed valuation ("AV") is determined by the Riverside County Assessor. Total assessed valuation of taxable property within the District for the Fiscal Year ended June 30, 2000 was approximately \$19.5 billion, an increase of approximately 4.7% over the Fiscal Year ended June 30, 1999 valuation. The average assessed valuation of property within the District service area was approximately \$55,000 per acre on June 30, 2000.

### **Certain Limitations on Taxes and Other Revenue Sources**

Article XIII A of the California Constitution. The taxing powers of California public agencies are limited by Article XIII A of the California Constitution, added by an initiative amendment approved by the voters on June 6, 1978, and commonly known as Proposition 13.

Article XIII A limits the maximum ad valorem tax on real property to one percent of "full cash value," which is defined as "the County Assessor's valuation of real property as shown on the fiscal year 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or reduction in the consumer price index or comparable local data, or declining property value caused by damage, destruction, or other factors.

The tax rate limitation referred to above does not apply to ad valorem taxes to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978, or on any bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of the votes cast by the voters voting on the proposition.

Under the terms of Article XIII A and pursuant to an allocation system created by implementing legislation, each county is required to levy the maximum ad valorem tax permitted by Article XIII A and to distribute the proceeds to local agencies, including special districts such as the District. The allocation of property tax revenues among special districts, while subject to certain statutory procedures and criteria, is largely discretionary with each county.

Assessed valuation growth allowed under Article XIII A (new construction, change of ownership and 2% annual value growth) is allocated on the basis of situs among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools share the growth of base revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The availability of revenues from tax bases to such entities may be affected by the establishment of redevelopment agencies which, under certain circumstances, may be entitled to such revenues resulting from the upgrading of certain property values.

The District receives approximately 10% of its revenues from the 1% property tax levy that Riverside County levies in accordance with Proposition 13. In recent years the allocation of Proposition 13 property taxes to local agencies has been revised such that property tax revenue has been diverted away from special districts, such as the District, to school districts. It cannot be predicted if future legislation will be introduced to further reduce, or entirely eliminate, the percentage of the 1% Riverside County property tax levy paid to the District. In the opinion of District management, any such legislation would not have an adverse effect on its ability to make payments under the Installment Sale Agreements as the District would be able to compensate for any lost revenues through a combination of rate increases, cost efficiencies and/or cash reserves.

The District has projected future Net Revenues by excluding moneys reallocated in recent years. (See, **THE DISTRICT**, herein). There can be no assurance that the Net Revenues of the District will not be adversely impacted due to any future reallocation of revenues which might be imposed by the State.

Under California law, any fee which exceeds the reasonable cost of providing the service for which the fee is charged is a "special tax," which under Article XIII A must be authorized by a two-thirds vote of the electorate. Accordingly, if a portion of the District's wastewater user rates or connection fees were determined by a court to exceed the reasonable cost of providing service, the District would not be permitted to continue to collect that portion unless it were authorized to do so by a two-thirds majority of the votes cast in an election to authorize the collection of that portion of the rates or fees. The reasonable cost of providing wastewater services has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, the California courts have determined that fees such as connection fees will not be special taxes if they approximate the reasonable cost of constructing the wastewater capital improvements contemplated by the local agency imposing the fee.

Article XIII B of the California Constitution. Article XIII B of the California Constitution limits the annual appropriations of proceeds of taxes by State and local governmental entities to the amount of appropriations of the entity for the prior fiscal year, as adjusted for changes in the cost of living, changes in population and changes in services rendered by the entity. User fees and charges are considered proceeds of taxes only to the extent they exceed the reasonable costs incurred by a governmental entity in supplying the goods and services for which such fees and charges are imposed.

Pending clarification of certain of its provisions by the courts, or by the California Legislature, the full impact of Article XIII B on the amounts and uses of moneys to be deposited in the Water and Sewer Revenue Fund is not clear. However, to the extent moneys in the Water and Sewer Revenue Fund are used to pay the costs of maintaining and operating the Water and Sewer System and debt service on Parity Obligations (including the funding of the Debt Service Reserve Funds), such moneys should not, under the terms of Article XIII B, as supplemented by legislation, and based upon the official ballot argument supporting the measure, be held to be subject to the appropriation limit.

Articles XIII C and XIII D of the California Constitution. Proposition 218, a state ballot initiative known as the "Right to Vote on Taxes Act," was approved by California voters on November 5, 1996 and became effective

November 6, 1996. Proposition 218 amends the California Constitution by adding Articles XIII C and XIII D to the tax limitation provisions adopted by Proposition 13 and its progeny thereby limiting the imposition of taxes, assessments, fees and charges.

Article XIII D establishes procedural requirements for imposition of assessments, which are defined as any charge on real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements include the conducting of a public hearing and an election by mailed ballot, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel.

Existing, new or increased assessments are subject to the procedural provisions of Proposition 218. However, certain assessments existing on November 6, 1996 are classified as exempt from the procedures and approval process of Article XIII D. Expressly exempt assessments include (i) an assessment imposed exclusively to finance capital costs or maintenance and operation expenses for sewers, water, flood control and drainage systems, but subsequent increases are subject to the procedures and approval requirements, (ii) an assessment imposed pursuant to a petition signed by all affected landowners (but subsequent increases are subject to the procedural and approval requirements), (iii) assessments, the proceeds of which are used exclusively to pay bonded indebtedness, where failure to pay would violate the U.S. Constitution's prohibition against the impairment of contracts, and (iv) any assessment which has previously received approval by a majority vote of the voters (but subsequent increases are subject to the procedural and approval requirements).

Water standby charges and sewerage and wastewater availability charges are classified as assessments and must comply with the provisions of Proposition 218 pertaining to assessments. Standby or availability charges imposed exclusively to finance the capital costs or maintenance and operation expenses for sewers or water which were in effect on the effective date of Proposition 218 need not comply with the approval process applicable to assessments generally. However, future increases in said charges are subject to the protest-election procedures in Article XIII D.

It is the District's belief that the water standby charges and sewerage and wastewater availability charges are existing assessments imposed to finance capital costs or maintenance and operation expenses for sewers or water and are therefore exempt from both the procedural and substantive provisions of Article XIII D. However, in interpreting Proposition 218, a court could conclude that although existing standby or availability charges are exempt from the procedural requirements, such charges must still comply with the substantive provisions of Article XIII D, including the requirement that the assessment on each parcel not exceed the reasonable cost of the proportional special benefit to that parcel.

As discussed in **WATER RESOURCES, FACILITIES AND USAGE — The Metropolitan Water District of Southern California**, MWD currently imposes a water standby or availability charge that is allocated among MWD's constituent public agencies, including the District. The charge is currently being imposed on parcels within the District. It is the District's understanding that MWD believes that Article XIII D does not apply to MWD's imposition of this standby charge. In the event a court having proper jurisdiction concluded to the contrary and/or MWD's standby charge is discontinued, the District might have to pay the charge from other revenue sources or attempt to adopt its own standby charge. The protest-election procedures may adversely impact the District's ability to continue to pay the charge through levies on parcels in the District. In that event, there can be no assurance that the Net Water and Sewer Revenues of the District would not be adversely affected.

Article XIII D provides that nothing in Proposition 218 shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development. Therefore, it is the District's belief that Proposition 218 does not apply to connection fees and sewer frontage charges, although there can be no assurance that a court would not determine otherwise.

Article XIII D defines a "fee" or "charge" as any levy other than an ad valorem tax, special tax, or assessment imposed upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service. A "property-related service" is defined as "a public service having a direct relationship to a property ownership."

An agency imposing or increasing a property-related fee or charge must provide notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing.

The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests.

Article XIII D includes substantive provisions applicable to existing fees and charges including provisions that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service, (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed, (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the property owner.

While the District is of the view that its water and sewer charges are not “imposed as an incident of property ownership,” and, therefore, not subject to Article XIII D’s requirements as property-related fees or charges, there can be no assurance that a court having proper jurisdiction will not find to the contrary. Subsequent to the adoption of Proposition 218, the proponents thereof have argued that Article XIII D was intended to regulate fees and charges, including user fees or charges such as water and sewer service charges, that are imposed for services customarily provided to real property. The District, however, believes that such fees and charges are an incident of a request for service, not an incident of property ownership, and should not be classified as property-related fees or charges. Under this interpretation, property owners who do not request connections or service do not pay such fees and the amount of the fee depends upon factors such as the type and amount of use. Such a fee, thus, differs from a fee or charge that is an incident of property ownership which cannot be avoided by declining service.

In connection with the debate regarding application of Article XIII D to water and sewer charges, the California Attorney General rendered Opinion No. 97-302, dated July 14, 1997, in which he concludes that Article XIII D is inapplicable to the tiered water rate structure addressed by the Opinion. The Opinion makes the distinction between a water rate structure based upon the amount of water used, which is not subject to Article XIII D, and fees or assessments that are levied against a parcel of land on a per-parcel or per-acre basis, which are subject to Article XIII D. The Attorney General concludes that fees for water that are based upon metered amounts used are not imposed as an incident of property ownership and do not have a direct relationship to property ownership and consequently, such fees would not be governed by Article XIII D.

In response to this Attorney General Opinion, the Howard Jarvis Taxpayers Association, which drafted Proposition 218, published an article in Volume 16, No. 10 of “Debt Line,” a publication of the California Debt And Investment Advisory Commission, dated October 1997. Among the arguments in the article, the Jarvis Association states its belief that Article XIII D should be liberally construed to include water rates as a user fee or charge under the theory that virtually all water service has meaning only in the context of the use and enjoyment of property.

If and to the extent a fee or charge imposed by the District for water, wastewater, or sewer service is nevertheless determined to be a “fee” or “charge,” the District’s ability to increase such a fee or charge may be limited by a majority protest. For similar reasons, wholesale customers of the District (for example, the Cities of Perris, Hemet, and San Jacinto and water districts such as Elsinore Valley MWD) may be limited in their ability to raise sufficient revenues through fees and charges to pay for wholesale service which could also have an adverse impact on Net Water and Sewer Revenues.

Article XIII C removes limitations on the initiative power in matters of local taxes, assessments, fees and charges. Consequently, eligible voters within the District’s service area could, by future initiative, repeal, reduce or prohibit the future imposition or increase of any local tax, assessment, fee or charge. “Assessment,” “fee” and “charge” are not defined in Article XIII C, and it is not clear whether the definitions of these terms in Article XIII D would be applied to Article XIII C.

The provisions of Article XIII C and XIII D have not been conclusively interpreted by any court. The California Legislature enacted Stats. 1997, c. 38 (S.B. 919), effective July 1, 1997, which provides procedures for complying with Article XIII C and Article XIII D. However, this legislation does not address the interpretation issues described above. The only official interpretation is Opinion No. 97-302 of the California Attorney General. The District is unable to predict how Articles XIII C and XIII D will be interpreted by the courts and what, if any, further implementing legislation will be enacted. Until such further interpretations are available, the District cannot predict with certainty whether Proposition 218 will have any substantial adverse effect on the District’s ability to impose and collect assessments, fees and charges and there can be no assurance that Proposition 218 will not adversely affect the ability of the District to impose, charge and collect assessments, fees and charges to enable the District to generate Net Water and Sewer Revenues sufficient to make Installment Sale Payments.

## Historical Operating Results

The following table summarizes the District's operating revenues, operating expenses and net revenues for the five fiscal years ended June 30, 1996-2000. The operating revenues, operating expenses and net revenues in each of said fiscal years shown are derived from the Financial Statements of the District. The Financial Statements of the District for the years ended June 30, 1999 and 2000 and the report thereon of Ernst & Young are included as Appendix B to this Official Statement. The following table is derived from such Financial Statements, including the notes contained therein, and should be read in conjunction with **Management Discussion of Operations**, below.

**HISTORICAL OPERATING RESULTS**  
(Fiscal Year Ended June 30)

**SUMMARY OF REVENUES, EXPENSES AND CHANGES IN FUNDEQUITY**

	<u>Fiscal Year 1995/96</u>	<u>Fiscal Year 1996/97</u>	<u>Fiscal Year 1997/98</u>	<u>Fiscal Year 1998/99</u>	<u>Fiscal Year 1999/00</u>
<b>OPERATING REVENUES:</b>					
Water Sales	\$45,549,894	\$47,680,036	\$42,221,945	\$48,589,630	\$54,018,590
Sewer Service Charges	21,393,178	22,615,071	23,665,927	25,020,585	25,361,569
Recycled Water	<u>779,660</u>	<u>764,848</u>	<u>645,259</u>	<u>1,078,322</u>	<u>1,102,441</u>
Total Operating Revenues	\$67,722,732	\$71,059,955	\$66,533,131	\$74,688,537	\$80,482,600
<b>OPERATING EXPENSES:</b>					
Water Purchases	\$21,652,549	\$20,274,732	\$18,577,818	\$21,788,173	\$ 26,331,029
Water Operations	15,162,037	14,460,206	14,556,360	14,845,543	16,348,960
Sewer Operations	17,709,377	17,465,284	16,999,525	18,658,473	18,767,123
General and Administrative	13,057,328	12,602,706	13,459,580	13,909,581	13,429,893
Depreciation	<u>22,357,898</u>	<u>23,325,105</u>	<u>24,555,656</u>	<u>25,976,208</u>	<u>27,279,095</u>
Total Operating Expenses	\$89,939,189	\$88,128,033	\$88,148,939	\$95,177,978	\$102,156,100
<b>OPERATING INCOME (LOSS)</b>	<b>(22,216,457)</b>	<b>(17,068,078)</b>	<b>(21,615,808)</b>	<b>(20,489,441)</b>	<b>(21,673,500)</b>
<b>NON-OPERATING REVENUES:</b>					
Property Taxes - General Purpose	\$ 9,561,703	\$ 9,336,708	\$ 9,236,496	\$ 9,804,684	\$10,778,537
Ad Valorem Taxes - Debt Service	3,450,689	3,408,853	3,004,909	3,022,649	3,103,876
Availability Charges	3,750,190	3,758,737	3,797,564	3,771,928	3,816,486
Water and Sewer Plant Capacity Charges	3,943,571	4,860,675	4,346,898	9,202,606	8,621,421
Water and Sewer Backup Charges	4,414,697	4,480,405	4,504,843	10,005,494	9,621,599
Water and Sewer Frontage Charges	252,189	191,166	307,655	693,595	518,372
Water and Sewer Fees	897,620	1,173,138	1,600,610	1,671,295	2,005,629
Interest Income	13,317,134	14,952,009	16,314,378	12,262,116	13,948,178
Interest Income - Bonds	317,669	316,501	326,443	313,190	341,350
Gain on Disposal of Fixed Assets	0	151,111	(478,354)	(1,380,863)	(254,819)
Other	<u>1,683,646</u>	<u>1,802,461</u>	<u>1,793,344</u>	<u>2,592,730</u>	<u>2,560,252</u>
Total Non-Operating Revenues	\$41,589,108	\$44,431,764	\$44,754,786	\$51,959,424	\$55,060,881
<b>NON-OPERATING EXPENSES:</b>					
Interest & COP Debt	\$15,768,809	\$16,222,421	\$15,312,712	\$15,260,659	\$15,069,255
Interest Expense - Bonds	1,766,394	1,575,954	1,429,131	1,247,461	1,077,256
Other	<u>2,157,338</u>	<u>2,421,607</u>	<u>1,810,221</u>	<u>3,852,854</u>	<u>3,389,347</u>
Total Non-Operating Expenses:	\$19,692,541	\$20,219,982	\$18,552,064	\$20,360,974	\$19,535,858
<b>EXCESS OF REVENUE OVER EXPENSES BEFORE EXTRAORDINARY ITEM</b>	<b>(319,890)</b>	<b>7,143,704</b>	<b>4,586,914</b>	<b>11,109,009</b>	<b>13,851,523</b>
<b>EXTRAORDINARY ITEM:</b>					
Gain from Debt Extinguishment	0	0	0	0	0
Loss on Debt Defeasance	0	0	0	0	0
Prior Period Adjustment	(2,639,421)	1,309,762	0	0	0
<b>NET INCOME</b>	<b>(2,959,311)</b>	<b>8,453,466</b>	<b>4,586,914</b>	<b>11,109,009</b>	<b>13,851,523</b>
<b>FUND EQUITY, BEGINNING OF YEAR</b>	<b>700,220,535</b>	<b>714,835,073</b>	<b>739,910,927</b>	<b>750,622,881</b>	<b>770,603,571</b>
<b>CONTRIBUTED CAPITAL FROM DEVELOPERS</b>	<b>17,573,849</b>	<b>9,622,388</b>	<b>13,125,040</b>	<b>8,871,681</b>	<b>7,149,126</b>
<b>FUND EQUITY, END OF YEAR</b>	<b>\$714,835,073</b>	<b>\$732,910,927</b>	<b>\$750,622,881</b>	<b>\$770,603,571</b>	<b>\$791,604,220</b>

**EASTERN MUNICIPAL WATER DISTRICT  
HISTORICAL OPERATING RESULTS  
SUMMARY OF MODIFIED REVENUES AND EXPENSES**

	<b>Fiscal Year 1995/96</b>	<b>Fiscal Year 1996/97</b>	<b>Fiscal Year 1997/98</b>	<b>Fiscal Year 1998/99</b>	<b>Fiscal Year 1999/00</b>
<b>OPERATING REVENUES:</b>					
Water Sales	\$45,549,894	\$47,680,036	\$42,221,945	\$48,589,630	\$54,018,590
Sewer Service Charges	21,393,178	22,615,071	23,665,927	25,020,585	25,361,569
Recycled Water	<u>779,660</u>	<u>764,848</u>	<u>645,259</u>	<u>1,078,322</u>	<u>1,102,441</u>
Total Operating Revenues	<u>\$67,722,732</u>	<u>\$71,059,955</u>	<u>\$66,533,131</u>	<u>\$74,688,537</u>	<u>\$80,482,600</u>
<b>OPERATING EXPENSES:</b>					
Water Purchases	\$21,652,549	\$20,274,732	\$18,577,818	\$21,788,173	\$26,331,029
Water Operations	15,162,037	14,460,206	14,556,360	14,845,543	16,348,960
Sewer Operations	17,709,377	17,465,284	16,999,525	18,658,473	18,767,123
General and Administrative	<u>13,057,328</u>	<u>12,602,706</u>	<u>13,459,580</u>	<u>13,909,581</u>	<u>13,429,893</u>
Total Operating Expenses	<u>\$67,581,291</u>	<u>\$64,802,928</u>	<u>\$63,593,283</u>	<u>\$69,201,770</u>	<u>\$74,877,005</u>
<b>OPERATING INCOME (LOSS)</b>	<b>141,441</b>	<b>6,257,027</b>	<b>2,939,848</b>	<b>5,486,767</b>	<b>5,605,595</b>
<b>NON-OPERATING REVENUES:</b>					
Property Taxes - General Purpose	\$ 9,561,703	\$ 9,336,708	\$ 9,236,496	\$ 9,804,684	\$10,778,537
Availability Charges	3,750,190	3,758,737	3,797,564	3,771,928	3,816,486
Water and Sewer Plant Capacity Charges	3,943,571	4,860,675	4,346,898	9,202,606	8,621,421
Water and Sewer Backup Charges	4,414,697	4,480,405	4,504,843	10,005,494	9,621,599
Water and Sewer Frontage Charges	252,189	191,166	307,655	693,595	518,372
Water and Sewer Fees	897,620	1,173,138	1,600,610	1,671,295	2,005,629
Interest Income	13,317,134	14,952,009	16,314,378	12,262,116	13,948,178
Gain on Disposal of Fixed Assets	0	151,111	(478,354)	(1,380,863)	(254,819)
Other	<u>1,683,646</u>	<u>1,802,461</u>	<u>1,793,344</u>	<u>2,592,730</u>	<u>2,560,252</u>
Total Non-Operating Revenues	<u>\$37,820,750</u>	<u>\$40,706,410</u>	<u>\$41,423,434</u>	<u>\$48,623,585</u>	<u>\$51,615,655</u>
<b>NON-OPERATING EXPENSES:</b>					
Interest & COP Debt	\$15,768,809	\$16,222,421	\$15,312,712	\$15,260,659	\$15,069,255
Other	<u>2,157,338</u>	<u>2,421,607</u>	<u>1,810,221</u>	<u>3,852,854</u>	<u>3,389,347</u>
Total Non-Operating Expenses	<u>\$17,926,147</u>	<u>\$18,644,028</u>	<u>\$17,122,933</u>	<u>\$19,113,513</u>	<u>\$18,458,602</u>
<b>EXCESS OF REVENUES OVER EXPENSES BEFORE EXTRAORDINARY ITEM</b>	<b>\$20,036,044</b>	<b>\$28,319,409</b>	<b>\$27,240,349</b>	<b>\$34,996,839</b>	<b>\$38,762,648</b>

**Management Discussion of Operations**

The Historical Operating Results of the District as presented on page 48 reflects all sources of revenues and expenses from the Audited Financial Statements. This includes General Obligation related revenues and expenses, depreciation, and other extraordinary book entries. In order to compare the future "Net Revenues and Expenses" of the District to historical, a modified Historical Operating Results has been prepared and is presented on page 49. The following commentary is being made based on the modified report.

The District's Net Water and Sewer Revenues include all gross income and revenue received or receivable by the District from its ownership and operation of the Water and Sewer System, including income derived from water and wastewater sales, sewer service charges, standby charges, water and sewer plant capacity charges, water and sewer back-up charges, water and sewer frontage charges, water and sewer fees, annexation charges and certain investment earnings. The District budgets each year those revenues which are driven by expected customer demands on the system as part of its "Operating Budget". These revenues include water and wastewater sales, sewer service charges, standby charges, annexation charges, certain investment earnings and miscellaneous revenues derived from

fees for service. These revenues are primarily used to pay for the fiscal year's operating expenses, capital outlays and research, and supports the capital improvement program. The balance of the net water and sewer revenues; water and sewer plant capacity charges, water and sewer back up charges, water and sewer frontage charges, water and sewer fees, and certain investment earnings, are appropriated each year to the construction fund to finance a major portion of the capital improvement program. With the exception of the investment earnings, these revenues are part of the District's connection fee that is paid by the developer at the time arrangements are made with the District for water and/or sewer service. These revenues are reported as "Non-Operating" revenues and will have the biggest fluctuations from year to year due to being driven by economic conditions. Historically, these revenues peaked in Fiscal Year 1989/90 at \$52.0 million and dropped to \$8.8 million in Fiscal Year 1991/92. However, the District's financial position as presented in its Audited Financial Statements (See Appendix B) continues to remain strong.

#### COMPARATIVE RESULTS:

The District completed its last five fiscal years with Net Income Before Appropriations of \$20,036,044; \$28,319,409; \$27,240,349; \$34,996,839 and \$38,762,648 in 1996, 1997, 1998, 1999 and 2000 respectively. That portion attributed to developer driven connection fees were; \$8,198,556; \$10,705,384, \$10,760,006; \$21,572,990 and \$20,767,021 in 1996, 1997, 1998, 1999 and 2000 respectively.

2000 Fiscal Year Compared to 1999 Fiscal Year. Net income increased \$3,765,809, or 10.8% from 1999. This increase was the net result of increased sewer contributions of \$256,453; lower COP interest expense of \$191,404; increased property taxes and assessments of \$1,018,411; lower general and administrative expenses of \$479,688; higher interest earnings of \$1,686,062 (primarily due to GASB 31 adjustment); and a net increase in other non-operating income/expenses of \$1,557,073. These increases to net income were partially offset by decreased water contributions of \$617,313 and lower connection fee revenues of \$805,969.

1999 Fiscal Year Compared to 1998 Fiscal Year. Net income increased \$7,756,490, or 28.5% from 1998. This increase was the net result of increased water contributions of \$2,868,147; increased sewer contributions of \$128,773; higher connection fee revenues of \$10,812,984; lower COP interest expense of \$52,053; and increased property taxes and assessments of \$542,552: which was offset by higher general and administrative expenses of \$450,001; lower interest earnings of \$4,052,262 (primarily due to GASB 31 adjustment); and a net decrease in other non-operating income/expenses of \$2,145,756. The primary increase to water sales was from water demand approximately 15% higher than the prior year which was impacted by El Nino. Increased sewer revenues can primarily be attributed to service connections which increased approximately 2.5% from the prior year. However, the single most important variance was in the area of developer fees which resulted in revenues just over twice the previous year.

1998 Fiscal Year Compared to 1997 Fiscal Year. Net income decreased \$1,079,060, or 3.8% from 1997. This decrease was the net result of lower water contributions of \$3,857,331; higher general and administrative expenses of \$856,874; lower property taxes and assessments of \$61,385; and a net increase in other non-operating expenses of \$27,196 which was partially offset by increase sewer contributions of \$1,397,026; increased connection fee revenue of \$54,622, increased interest income of \$1,362,369; and lower COP debt expenses of \$909,709.

1997 Fiscal Year Compared to 1996 Fiscal Year. Net income increased \$8,283,365, or 41.3% from 1996. This increase was the net result of increased water contributions of \$4,209,790; increased sewer contributions of \$1,451,174; lower general and administrative expenses of \$454,622; higher connection fee revenues of \$1,197,307; higher COP interest expense of \$453,612; higher taxes and interest earnings of \$1,418,427; and an increase in other non-operating income/expenses of \$5,657. The primary increase to water sales was due to sales of approximately 7% higher than the prior year. Increased sewer revenues can primarily be attributed to a 3.0% weighted average rate increase that was implemented January 1, 1997. Additionally, service connections increased approximately 1.3% from the prior year.



## PROJECTED OPERATING RESULTS

### Assumptions Utilized in Preparing Projected Operating Results

In preparing its operating results (see Projected Operating Results, below), the District has utilized and relied upon the assumptions set forth below.

The EXCESS OF REVENUES OVER EXPENSES is forecasted at \$36,394,725; \$40,972,387; \$46,290,827; \$52,649,172 and \$53,899,541 for the Fiscal Years ended 2001, 2002, 2003, 2004 and 2005 respectively. The assumptions used to derive this revenue is based on the following:

#### OPERATING REVENUE:

1. Water Sales. The amount of acre feet sold is projected to increase at approximately 2.3%/yr over the forecast period. The acre feet sold (domestic and irrigation) is projected to increase from 75,677 A.F. in 2000/01 to 82,933 in 2004/05. The sales \$/af will increase over the forecast period by \$5/af per year (less than 1%/yr) to offset rising energy and labor costs. Additionally, the primary component of the water rate is the price paid to the Metropolitan Water District which is approximately 46% of sales. The projected cost increases by the MWD have been based on the rate refinement committee's recommendation that no increase be greater than 1.5%/yr over the next ten years. However, MWD has projected no rate increase until January, 2003. The estimated increases are identified under Water Purchase Cost and represents a cumulative increase of \$6/af over the forecast period. Whatever the increase, it has been the position of Eastern Municipal Water District's Board of Directors to increase wholesale and retail water rates to recover 100% of MWD's increases.

2. Sewer Service Charges. In projecting these revenues, the projected Sewer EDU's for each year was added to the previous years EDU's served and multiplied against an annual service charge/EDU. The District has not raised its sewer rates since January, 1997. However, it is forecasted that a \$6/yr increase will be implemented to cover increasing energy, labor and other operational costs. This increase is approximately 3.2%/yr.

3. Recycled Water. These sales dollars represent a small portion of the total revenue and are forecasted at 5.0% of each years Sewer Service Charges.

#### OPERATING EXPENSES:

1. Water Purchase Cost. This is the average cost of purchasing treated and untreated water for domestic and irrigation use from the Metropolitan Water District. The projected increase per Acre Foot for treated water from MWD has been included in each years projected cost. These increases are; \$0 (2000/01), \$0 (2001/02), \$2 (2002/03), \$2 (2003/04), and \$2 (2004/05). It was also assumed that the District would begin to reduce its dependency on MWD by developing more of its local resources. It is projected that this demand would decrease from 79% in 2000/01 to 73% in 2004/05. This would approximate 60,000 A.F. in 2000/01 to 60,500 A.F.(net of increased sales) in 2004/05.

2. Water Operations. In the 2000/01 fiscal year, water operating costs are forecast at 32% of water sales. This rate is projected at 34% due to higher energy, labor and material costs.

3. Sewer Operations. In the Fiscal year ended 2000/01, wastewater treatment plant, system maintenance and related overhead costs are forecast at 72% of Sewer Service Charges. This rate is projected at 74% due to higher energy, labor and material costs.

4. General and Administrative Expenses. It was assumed that these expenses would stabilize in the fiscal year 2000/01 and increase each year by 2% over the preceding year to cover reasonable growth and cost of living related increases.

#### NON-OPERATING REVENUES:

1. Property/General Purpose Taxes. It is assumed that the State of California will not attempt to shift any future general purpose property tax revenue away or back to the District. Therefore, only a modest growth rate of 2%/yr will be implemented beginning in the 2001/02 fiscal year.

2. Availability Charges. The current revenue received from this source is approximately \$3.7 million. Based on the new Proposition 218, the District does not intend on modifying its current rate structure. Therefore, the current revenue is being forecast.

3. Water and Sewer Plant Capacity Charges. These are one-time charge revenues received from developers and are used to support financing wastewater treatment plant facilities and expansions, and water treatment. The estimate of capacity charge revenue was calculated by multiplying the current capacity charge/EDU for sewer (\$1,890) and water (\$120) times the projected incremental EDU's for water and sewer. The projected growth, based on Sewer EDU's each year is approximately 4,700 in 2000/01 to 7,400 in 2004/05. Water EDU's are projected at 2,300 in 2000/01 to 3,900 in 2004/05. Although not included in these revenues, the District has provisions in its Plant Capacity Resolution to increase these fees on the first day of each year based on the "Engineering News - Record" (ENR) Cost Index.

4. Water and Sewer Back Up Charges. These are one-time charge revenues received from developers. Sewer Back-up revenues are used to support financing major interceptor sewer mains, sewage lift stations, force mains, and disposal facilities. Water Back-up revenues are used to support financing the major supply and distribution main, pumping plant, and storage tanks. Revenues were calculated based on the same EDU projections used for Water and Sewer Plant Capacity Charges except that the Sewer Back-up charge is \$1,955/EDU and Water Back-up charge is \$1,390/EDU. These charges are also subject to increases each year based on the ENR Cost Index.

5. Water and Sewer Frontage Charges. These are one-time charge revenues based on a per lineal foot cost of financing a minimum sized local sewer collection main or water distribution main. A charge of \$15/ft for sewer and \$18/ft for water is paid for each front foot of involved property. Since it is difficult to determine how many feet of frontage will be paid by developers, these dollars were increased each year based on the % growth in projected EDU's.

6. Interest Income. The District's current portfolio, from which it derives interest earnings, is approximately \$260 million and is invested in various securities with an average yield of 6.1%. The District's mix and cash flow management is forecast to yield an average of 5.75% over the forecast period. Additionally, its portfolio is expected to decrease to an average of \$250 million, due in part to its extensive capital improvement program requirements. Therefore, the forecasted interest earnings is \$250 million @ 5.75% equals \$14.4 million/yr.

7. Other Miscellaneous. Other non-operating revenues, which include delinquency charges, industrial permitting, meter rentals, plan checks, and other miscellaneous revenues not included above, were kept stable at \$1.2 million per year. In January 2001, the Board of Directors adopted updated Fees-For-Service Charges. These Charges are subject to increase each year based on labor and material increases.

#### NON-OPERATING EXPENSES:

1. Debt Service Payments. Debt service includes payments towards the outstanding principal on the following plus applicable interest: 1991 Certificates \$18,940,000; 1991A Certificates \$68,185,000; 1993A Certificates \$41,295,000; 1993B Certificates \$63,845,000; 1997A Certificates \$21,640,000 and the 1998A Certificates in the amount of \$38,970,000. (Note: No adjustment is included due to current refunding.)

2. Rate Stabilization Fund. This fund will be allocated \$10/A.F. sold of water purchased from MWD.

## Projected Operating Results

The table of projected District revenues and expenses and debt service coverage for the five-year period ending June 30, 2005 has been prepared by the District and reflects certain significant assumptions concerning future events and circumstances. The projected 2000/01 results are based on the District's approved operating budget. This information has been provided for comparison purposes. The assumptions for operating revenue, operating expenses and debt service set forth above (*see, ASSUMPTIONS UTILIZED IN PREPARING PROJECTED OPERATING RESULTS*) are material in the development of the District's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

### PROJECTED OPERATING RESULTS

#### COMBINED STATEMENT OF REVENUES AND EXPENSES

#### FORECASTED FOR FISCAL YEARS ENDING JUNE 30, 2001-2005

	Budget <u>2000/01</u>	<u>2001/02</u>	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>
<b>OPERATING REVENUES:</b>					
Water Sales	\$50,441,124	\$51,829,492	\$53,521,906	\$55,470,487	\$57,433,736
Sewer Service Charges	25,831,608	28,154,386	30,312,411	32,745,258	35,252,346
Recycled Water Sales	<u>1,150,000</u>	<u>1,407,786</u>	<u>1,515,620</u>	<u>1,637,262</u>	<u>1,762,617</u>
Total Operating Revenues	\$77,422,732	\$81,391,597	\$85,349,937	\$89,853,007	\$94,448,699
<b>OPERATING EXPENSES:</b>					
Water Purchases	\$24,510,956	\$24,308,078	\$24,315,959	\$24,730,830	\$25,126,162
Water Operations	16,184,000	17,622,027	18,197,448	18,859,965	19,527,470
Sewer Operations	18,480,000	20,834,245	22,431,184	24,231,490	26,086,736
General and Administrative	13,860,000	14,137,200	14,419,944	14,708,342	15,002,508
Total Operating Expenses	\$73,034,956	\$76,901,550	\$79,364,535	\$82,530,627	\$85,742,876
OPERATING INCOME (LOSS)	4,387,776	4,490,047	5,985,402	7,322,380	8,705,823
<b>NON-OPERATING REVENUES:</b>					
Property Taxes - General Purpose	\$10,300,000	\$10,506,000	\$10,716,120	\$10,930,442	\$11,149,050
Availability Charges	3,800,000	3,700,000	3,700,000	3,700,000	3,700,000
Water and Sewer Plant Capacity Charges	9,173,310	11,114,250	12,661,230	14,602,110	14,455,560
Water and Sewer BackUp Charges	12,411,695	15,156,125	17,244,935	20,108,295	19,906,070
Water and Sewer Frontage Charges	544,725	555,550	567,772	582,434	596,952
Interest Income	14,375,000	14,375,000	14,375,000	14,375,000	14,375,000
Other Income	1,500,000	1,200,000	1,200,000	1,200,000	1,200,000
Total Non-Operating Revenues	\$52,104,730	\$56,606,925	\$60,465,057	\$65,498,281	\$65,382,632
<b>NON-OPERATING EXPENSES:</b>					
Debt Service Payments (P&I)	\$19,548,218	\$19,563,628	\$19,585,759	\$19,582,035	\$19,584,037
Rate Stabilization Fund Allocation	549,563	560,957	573,873	589,454	604,877
Total Non-Operating Expenses	\$20,097,781	\$20,124,585	\$20,159,632	\$20,171,489	\$20,188,914
EXCESS OF REVENUES OVER EXPENSES	<u>\$36,394,725</u>	<u>\$40,972,387</u>	<u>\$46,290,827</u>	<u>\$52,649,172</u>	<u>\$53,899,541</u>

## THE CORPORATION

The Corporation was organized pursuant to the Nonprofit Public Benefit Corporation Law of the State of California (Title 1, Division 2, Part 2 of the California Corporations Code), solely 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 Corporation was formed at the request of the District to assist in financing such as the financing described herein. The Corporation has no liability to the Certificate owners, and has pledged none of its moneys, funds or assets to any Installment Sale Payments or any payments under the Certificates.

The Corporation's Directors are: Marion V. Ashley, President; Rodger D. Siems, 1st Vice President; Randy A. Record, 2nd Vice President; David J. Slawson, 3rd Vice President & Secretary; and Richard R. Hall, 4th Vice President & Treasurer; each of whom sits on the District's Board of Directors. (For further information on each Director, *see*, **THE DISTRICT - Board of Directors, Management and Employee Relations.**)

## TAX EXEMPTION

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, the portion of each Installment Sale Payment constituting interest is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, the portion of each Installment Sale Payment constituting interest is exempt from State of California personal income tax. Special Counsel notes that, with respect to corporations, the portion of each Installment Sale Payment constituting interest may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

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

Special Counsel's opinion as to the exclusion from gross income for federal income tax purposes of the portions of each Installment Sale Payment constituting interest and original issue discount is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the Certificates to assure that the portions of each Installment Sale Payment constituting interest and original issue discount will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the portions of each Installment Sale Payment constituting interest and original issue discount to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. The District has covenanted to comply with all such requirements. Should the portions of an Installment Sale Payment constituting interest and original issue discount become includable in gross income for federal income tax purposes, the Certificates are not subject to early redemption as a result of such occurrence and will remain outstanding until maturity or until otherwise redeemed in accordance with the Trust Agreements.

Special Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the execution and delivery of the Certificates. Special Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Certain requirements and procedures contained or referred to in the Trust Agreements, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Certificates) may be taken or

omitted under the circumstances and subject to the terms and conditions set forth in such documents. Special Counsel expresses no opinion as to the Installment Sale Agreements, any Certificate or the portions of an Installment Sale Payment constituting interest and original issue discount if any such change occurs or action is taken or omitted upon the advice or approval of Special Counsel other than itself.

Although Special Counsel has rendered opinions that the portions of the Installment Sale Payments constituting interest and original issue discount is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the Certificates and the accrual or receipt of interest with respect to the Certificates may otherwise affect the tax liability of certain persons. The extent of these other tax consequences will depend upon a person's particular tax status and other items of income or deductions. Special Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Certificates, all potential purchasers should consult their tax advisors with respect to collateral tax consequences with respect to the Certificates.

Certificates that are purchased, whether at original issuance or otherwise, for an amount higher than the principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Certificates") will be treated as having amortizable premium. No deduction is allowable for the amortizable premium in the case of obligations, like the Premium Certificates, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a purchaser's basis in a Premium Certificate, will be reduced by the amount of amortizable premium properly allocable to such purchaser. Owners of Premium Certificates should consult their own tax advisors with respect to the proper treatment of amortizable premium in their particular circumstances.

#### **RATINGS**

Moody's Investors Service, Inc. and Standard & Poor's Rating Services have assigned the ratings of "Aaa/A1" and "AAA/A+", respectively, to the Certificates with the understanding that, upon delivery of the Certificates, a municipal bond new issue insurance policy will be issued by Financial Guaranty Insurance Company, guaranteeing the payment of the principal and interest with respect to the Insured Certificates. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007; Standard & Poor's Rating Services, 55 Water Street, New York, New York 10041. 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 ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

#### **UNDERWRITING**

The Certificates are to be purchased by UBS PaineWebber Inc. at an aggregate underwriter's discount of \$833,263.46 plus accrued interest from the initial public offering prices set forth on the cover of this Official Statement. The Underwriter is committed to purchase all the Certificates if any are purchased. The Underwriter may offer and sell Certificates to certain dealers (including dealers depositing Certificates into investment trusts) and others at prices lower than the offering prices stated on the cover of this official Statement. After the initial public offering, the public offering prices of the Certificates may be changed from time to time by the Underwriter.

#### **NO LITIGATION**

No litigation is pending or, to the knowledge of the District threatened, in any way questioning or affecting the validity or enforceability of the Certificates or the Installment Sale Agreements. Neither the creation, organization or existence of the District, nor the title of the present directors or officers of the District to their respective office is being contested.

The District is engaged in routine litigation incidental to the conduct of its business. In addition, on April 20, 2000, the Soboba Band of Mission Indians filed a lawsuit against MWD seeking an injunction requiring MWD to repair the San Jacinto Tunnel to halt flow of reservation groundwater into it, and an award of damages against

MWD in an unspecified amount, or restitution in lieu of damages, and attorneys fees and costs. The District anticipates becoming a party in this lawsuit as a defendant. The outcome of this litigation is uncertain. However, in the opinion of Redwine & Sherrill, Counsel to the District, the aggregate amounts recoverable against the District, taking into account insurance coverage, are not material.

#### **VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS**

Upon delivery of the Certificates, Grant Thornton LLP, independent accountants, will deliver a report on the mathematical accuracy of certain computations contained in schedules provided to them by the Underwriter relating to (a) the adequacy of the maturing principal of and interest on certain obligations and certain other moneys to pay all of the principal and redemption premium represented by and the interest due with respect to the 1991A Certificates maturing July 1, 2001 through 2020, inclusive, to be refunded (as described under the heading “**THE 2001B PROJECT AND THE REFUNDING PLAN**”) as such principal, redemption premium and interest become due and payable, (b) the adequacy of the maturing principal of and interest on certain obligations and certain other moneys to pay all of the principal and redemption premium represented by and the interest due with respect to the 1993A Certificates maturing July 1, 2005 through 2013, inclusive, to be refunded (as described under the heading “**THE 2001B PROJECT AND THE REFUNDING PLAN**”) as such principal, redemption premium and interest become due and payable and (c) the computations of actuarial yield used by Special Counsel to support its opinion that the Certificates are not arbitrage bonds within the meaning of Section 148 of the Code.

#### **CERTAIN LEGAL MATTERS**

Special Counsel will render an opinion substantially in the form set forth in Appendix E hereto. Copies of such opinion will be furnished to the Underwriter at the time of delivery of the Certificates. Certain legal matters will be passed upon for the Underwriter by O’Melveny & Myers LLP, and for the District by Redwine & Sherrill, Riverside, California.

#### **MISCELLANEOUS**

This Official Statement has been duly approved, executed and delivered by the District. Copies of this Official Statement may be obtained from the District at the address indicated on the inside of the cover page of this Official Statement.

Financial Statements of the District, a summary of the Principal Legal Documents to be adopted or executed in connection with the offering of the Certificates, information relating to the Book-Entry Only System relating to the Certificates, the Forms of Opinions of Special Counsel, the Specimen Municipal Bond New Issue Insurance Policy and certain selected financial information relating to the District are attached hereto as Appendices. The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

Insofar as any statements made in this Official Statement involve matters of opinion, forecasts or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact.

The delivery of this Official Statement, including the Appendices and other information herein, has been duly authorized by the Corporation and the District.

**EASTERN MUNICIPAL WATER DISTRICT  
FACILITIES CORPORATION**

By:           /s/ Marion V. Ashley            
          President

**EASTERN MUNICIPAL WATER DISTRICT**

By:           /s/ Rodger D. Siems            
          President

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## APPENDIX A

### DEMOGRAPHIC INFORMATION REGARDING THE COUNTY OF RIVERSIDE AND THE DISTRICT'S SERVICE AREA

*The Certificates do not represent a lien or charge against the funds or property of Riverside County. The following information is provided only to give prospective investors an overview of the general economic condition of Riverside County and the Eastern Municipal Water District's service area.*

#### **Background Information**

Eastern Municipal Water District (the "District") provides domestic and agricultural water, wastewater collection and treatment service, and recycled water to a 555 square mile service area in western Riverside County (the "County"). The population within the current 555 square mile service area is about 440,000. Due to the close relationship between the District service area and the County, a brief description of the economy of the County is provided below.

The County is the fourth largest county in the state, stretching nearly 200 miles across and comprising over 7,200 square miles of fertile river valleys, low deserts, mountains, foothills and rolling plains. Riverside County shares borders with densely populated Los Angeles, Orange, San Diego, and San Bernardino Counties, extending from within 14 miles of the Pacific Ocean to the Colorado River. Taking its name from the City of Riverside, the County was formed in 1893 from a small portion of San Bernardino County and a larger part of San Diego County.

#### **County Organization**

The County is a general law county divided into five supervisorial districts on the basis of registered voters and population. The County is governed by a five member Board of Supervisors who serve alternating four-year terms. The chairman is elected by the Board members.

County administration includes appointed and elected officials, boards, commissions, and committees, which assist the Board of Supervisors. The County provides a wide range of services to residents, including police and fire protection, medical and health services, education, library services, judicial institutions, and public assistance programs.

#### **County Services**

Some municipal services are provided by the County on a contract basis to incorporated cities within its boundaries. These services are designed to allow cities to contract for certain municipal services such as police and fire protection without incurring the cost of creating city departments and facilities. Services are provided to the cities at cost by the County.

The County is the agency that collects the District taxes, assessments and standby charges through the offices of the County Assessor and the Treasurer-Tax Collector.

#### **Geography and Climate**

Three distinct geographical areas characterize the County: the western valley area, the high elevations of the mountains, and the deserts. The western valley, which includes the San Jacinto Mountains and Cleveland National Forest, experiences the mild climate typical of Southern California. The eastern desert areas experience warmer and dryer weather conditions.

The County encompasses an area of approximately 7,200 square miles. The western portion of the County is separated from the rest of the area by a series of mountain ranges, which includes the San Jacinto and Santa Ana mountain ranges. This part of the County contains almost all the population and commercial and industrial activity. Although agriculture continues to provide an important mainstay to the County's economy, much of the economic growth in recent years has been attributable to the County's commercial, industrial and tourism sectors. In the eastern part of the County is a series of sparsely settled desert ranges and basins which includes one region of growing population and commercial agricultural activity in the Palm Springs and adjacent Coachella Valley area.

### **Population**

According to the State Department of Finance, Demographic Research Unit, the County's population was estimated at 1,522,900 as of January 1, 2000, reflecting a 2.8% increase over January 1, 1999. Population rose 38.7% from 1970 to 1980. The 1990 U.S. Census shows the County's population to be 1,170,413, an 84.6% increase over the 1980 population.

The ten largest cities in the County are the cities of Riverside, Moreno Valley, Corona, Hemet, Indio, Temecula, Palm Springs, Cathedral City, Murrieta, and Palm Desert. The areas of most rapid population growth continue to be those more populated and industrialized cities in the western and central regions of the County and the southwestern unincorporated region of the County between Sun City and Temecula.

The following table sets forth the annual population figures, as of January 1, for cities located within the County for each of the years listed:

**COUNTY OF RIVERSIDE  
POPULATION OF CITIES WITHIN THE COUNTY  
(as of January 1)**

<b>RIVERSIDE COUNTY</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
BANNING	23,850	24,250	24,900	25,450	26,000
BEAUMONT	10,450	10,500	10,650	10,900	11,000
BLYTHE	18,350	20,750	21,050	21,050	21,450
CALIMESA	7,300	7,400	7,550	7,675	7,750
CANYON LAKE	11,300	11,400	11,650	11,950	12,200
CATHEDRAL CITY	35,450	35,450	36,000	36,950	38,650
COACHELLA	21,050	21,350	21,850	22,350	23,050
CORONA	99,500	104,300	111,500	117,900	123,000
DESERT HOT SPRINGS	14,850	15,050	15,300	15,500	15,500
HEMET	52,600	53,100	57,500	61,600	62,800
INDIAN WELLS	3,080	3,190	3,270	3,430	3,560
INDIO	42,100	42,800	43,750	44,750	45,700
LAKE ELSINORE	25,600	26,650	27,750	29,450	30,350
LA QUINTA	18,050	19,200	20,450	21,900	24,250
MORENO VALLEY	133,400	134,600	137,200	139,800	141,300
MURRIETA	34,550	36,600	39,000	41,750	44,000
NORCO	24,500	24,650	25,500	25,600	25,900
PALM DESERT	33,450	34,150	35,150	36,500	37,650
PALM SPRINGS	41,700	41,900	42,650	43,100	43,500
PERRIS	30,500	30,300	31,050	31,750	32,350
RANCHO MIRAGE	10,550	10,700	11,050	11,500	11,950
RIVERSIDE	243,400	245,200	250,800	255,600	259,700
SAN JACINTO	23,900	24,250	24,850	25,400	26,100
TEMECULA	41,850	43,750	46,550	49,100	53,800
<hr/>					
INCORPORATED	1,001,330	1,021,490	1,056,970	1,090,955	1,121,510
UNINCORPORATED	380,500	378,900	384,000	390,200	401,400
<hr/>					
<b>COUNTY TOTAL</b>	<b>1,381,800</b>	<b>1,400,400</b>	<b>1,441,000</b>	<b>1,481,200</b>	<b>1,522,900</b>

Source: State Department of Finance Demographic Research Unit

**Effective Buying Income**

In 2000, the Riverside-San Bernardino-Ontario Primary Metropolitan Statistical Area (“PMSA”) ranked 23<sup>rd</sup> out of 323 metropolitan areas in terms of total Effective Buying Income (“EBI”). It also ranked 176<sup>th</sup> out of 323 areas on median household EBI for 2000. EBI is designated by Sales & Marketing Management Magazine as personal income less personal tax and nontax payments. Personal income is the aggregate of wages and salaries, other labor income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income owner-occupants of nonfarm dwellings), dividends paid by corporations, personal interest income from all sources, and transfer payments such as pensions and welfare assistance. Deducted from this total are

personal taxes (federal, state, and local), nontax payments (such as fines, fees, penalties), and personal contributions for social insurance. EBI is a bulk measurement of market potential. It indicates the general ability to buy and is essential in comparing, selecting, and grouping markets on that basis.

The following table lists the estimated annual median EBI for the County and the State of California (the "State").

**STATE OF CALIFORNIA & COUNTY OF RIVERSIDE  
ESTIMATED ANNUAL MEDIAN EBI**

	<b>Effective Buying Income</b>	<b>Percent of Households over \$50,000</b>
<b>2000</b>		
County	\$35,145	31.7%
State	\$39,492	38.3%
<b>1999</b>		
County	\$33,089	28.0%
State	\$37,091	34.6%
<b>1998</b>		
County	\$32,690	27.1%
State	\$36,483	33.5%
<b>1997</b>		
County	\$31,337	24.5%
State	\$35,216	31.7%
<b>1996</b>		
County	\$30,951	23.7%
State	\$34,533	30.5%

Note: Figures are based on "Money Income." Money Income does not include income derived from the sale of real estate, food stamps, or public housing subsidies, tax refunds, gifts, insurance payments, and other lump sum receipts.

Source: Sales and Marketing Management, Survey of Buying Power.

### **Industry and Employment<sup>1</sup>**

The County Department of Economics and Community Development was established as a means of attracting new business to the area. There are currently numerous industrial parks at various locations within the County, and the Department of Economic and Community Development reports substantial amounts of real property and improvements thereon, which have been designated for light, medium or heavy industrial use. Most of the industry lies in the western portion of the County, from Coachella Valley to the West.

A variety of manufacturing firms are housed in the County. The firms are involved in the manufacture of such products as aerospace and aircraft parts, electronic components and systems, mobile homes and recreational vehicles, irrigation equipment and frozen food products.

<sup>1</sup> State of California Employment Development Department, Labor Market Information Division, December 15, 2000 Press Release

The County is a part of the Riverside-San Bernardino Primary Metropolitan Statistical Area ("PMSA"), which includes all of Riverside and San Bernardino Counties. In addition to varied manufacturing employment, the PMSA has large and growing commercial and service sector employment, as reflected in the following table.

**RIVERSIDE-SAN BERNARDINO PMSA  
ANNUAL AVERAGE EMPLOYMENT  
(in thousands)**

<u>INDUSTRY</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Agriculture.....	21.8	21.3	21.7	21.6	21.6
Construction .....	43.1	46.2	52.1	60.8	70.0
Finance, Insurance and Real Estate .....	29.4	29.6	29.8	30.6	32.0
Government .....	162.6	167.3	171.6	174.7	183.2
Manufacturing:					
Nondurables.....	32.4	33.3	34.3	35.3	37.4
Durables.....	62.0	65.9	70.5	76.1	80.9
Mining .....	1.1	1.2	1.2	1.0	.9
Retail Trade .....	170.0	172.6	177.8	181.0	186.7
Services .....	202.6	208.7	221.5	234.9	248.8
Transportation and Public Utilities.....	40.8	41.1	42.5	45.7	48.7
Wholesale Trade.....	35.9	37.5	40.2	42.2	45.0
<b>TOTAL ALL INDUSTRIES.</b>	<u>801.7</u>	<u>824.8</u>	<u>863.1</u>	<u>903.8</u>	<u>955.2</u>

Source: State Employment Development Department, Labor Market Information Division.

The unemployment rate in the Riverside-San Bernardino PMSA was an estimated 4.6 percent during November 2000. This compares to the unadjusted unemployment rates of 4.9 percent for Los Angeles County and 4.6 percent for California for the same month. Separately, in Riverside County, the unemployment rate was estimated at 5.1 percent, and 4.2 percent in San Bernardino County in November 2000.

Farm employment decreased by 100 jobs between October and November of 2000, reflecting a normal seasonal change. Year-over farm employment decreased by 800 jobs. Total nonfarm employment in Riverside and San Bernardino counties increased by 7,400 jobs between October and November of 2000 to reach 998,900 jobs. Employment in the retail trade industry division increased by 4,700 jobs, as retailers expanded payrolls for the holiday shopping season. Services employment grew by 1,900 jobs with the majority of gains in the amusement and movies sector. Other industry divisions with month-over job gains include transportation and public utilities (up 800 jobs); government (up 500 jobs); manufacturing (up 300 jobs); and wholesale trade (up 100 jobs). Construction employment posted a seasonal decrease of 800 jobs. Finance, insurance and real estate declined 100 jobs over the month. Mining employment remained unchanged over the month.

Year-over (November 1999 to November 2000) total nonfarm employment in Riverside and San Bernardino counties rose by 39,400 jobs from 959,500 in November 1999 to 998,900 in November 2000, a growth rate of 4.1 percent. The services industry division added 13,500 jobs, led by business services and the other services categories. Retail trade employment grew by 6,700 jobs, with the majority of job gains in eating and drinking places. The construction and manufacturing industry divisions added 6,400

and 4,700 jobs respectively. Other industry divisions with year-over job gains include government (up 3,000 jobs); transportation and public utilities (up 2,800 jobs); wholesale trade (up 1,900 jobs); and finance, insurance and real estate (up 400 jobs). The mining industry division remained unchanged year-over.

The following table demonstrates the civilian employment and unemployment in the Riverside County labor market.

**RIVERSIDE COUNTY CIVILIAN LABOR FORCE  
EMPLOYMENT, UNEMPLOYMENT, AND UNEMPLOYMENT RATE  
(Annual Average)**

<b>Year</b>	<b>Labor Force</b>	<b>Employment</b>	<b>Unemployment</b>	<b>Unemployment Rate</b>
2000*	719,700	679,863	39,827	5.5%
1999	687,800	650,100	37,700	5.5%
1998	662,800	618,800	44,000	6.7%
1997	642,800	594,800	48,100	7.5%
1996	615,600	565,200	50,400	8.2%

\*Data not available for December 2000. annual average is based on January through November.

Note: The unemployment rate is calculated using unrounded data.

Source: Employment Development Department, Labor Market Information Division

The following table details the employment month by month for the 2000 Year.

**RIVERSIDE COUNTY  
MONTHLY LABOR FORCE AND EMPLOYMENT DATA  
(for Year 2000)**

<b>Month</b>	<b>Labor Force</b>	<b>Employment</b>	<b>Unemployment</b>	<b>Unemployment Rate</b>
January	704,100	668,500	35,600	5.1%
February	705,600	671,600	33,900	4.8%
March	712,000	678,000	34,000	4.8%
April	709,800	676,900	32,800	4.6%
May	712,800	679,100	33,700	4.7%
June	720,800	678,500	42,300	5.9%
July	735,100	681,600	53,500	7.3%
August	730,600	680,400	50,200	6.9%
September	724,300	680,000	44,300	6.1%
October	732,900	692,000	41,000	5.6%
November	728,700	691,900	36,800	5.1%
December	N/A	N/A	N/A	N/A

Note: The unemployment rate is calculated using unrounded data.

Source: Employment Development Department, Labor Market Information Division

The following table sets forth the major employers located in the County.

**COUNTY OF RIVERSIDE  
TOP TEN MAJOR EMPLOYERS  
(Ranked by number of county-based employees)**

EMPLOYER NAME	OFFICE LOCATION	INDUSTRY	COUNTY EMPLOYEES
County of Riverside	Riverside	Local government	14,096
March Air Reserve Base	March Air Reserve Base	Military	7,200
University of California, Riverside	Riverside	Higher education	6,281
Stater Bros. Markets	Colton	Grocery retailer	5,200
Riverside Unified School District	Riverside	Public education	3,642
Moreno Valley Unified School District	Moreno Valley	Public education	3,400
Corona-Norco Unified School District	Norco	Public education	3,059
Wal-Mart Stores Inc.	Bentonville, Ark.	Retail dept., store chain	2,870
Ralphs/Food 4 Less	Compton	Grocery retailer	2,820
Fleetwood Enterprises Inc.	Riverside	Manufactured housing and recreational vehicles	2,618

Source: Riverside Economic Development Agency, The Business Press. January 24, 2000

**Commercial Activity**

Commercial activity is an important factor in the County's economy. Much of the County's commercial activity is concentrated in central business districts or small neighborhood commercial centers in cities. There are eight regional shopping malls in the County: Riverside Plaza, Galleria at Tyler (Riverside), Palm Springs Mall, Desert Fashion Mall, Indio Fashion Mall, Hemet Valley Mall, Palm Desert Town Center and Moreno Valley Mall at Towngate. There are also two factory outlet malls (Desert Hills Factory Stores and Lake Elsinore Outlet Center) and over 200 area centers in the County.

## Retail Sales Transactions

The following table demonstrates the growth in the number of taxable sales.

### COUNTY OF RIVERSIDE TAXABLE SALES TRANSACTIONS (in thousands)

	1995	1996	1997	1998	1999*
Apparel Stores.....	\$ 421,007	\$ 474,384	\$ 488,625	\$ 498,753	\$ 343,101
General Merchandise Stores ..	1,391,979	1,429,338	1,498,212	1,628,149	1,228,711
Specialty Stores.....	902,171	1,023,651	890,940	1,004,203	831,461
Food Stores Group <sup>(1)</sup> .....	711,526	750,327	734,532	758,829	613,145
Eating and Drinking Places....	919,233	979,535	1,030,655	1,117,921	911,653
Household Group <sup>(2)</sup> .....	327,517	337,433	328,893	367,812	309,495
Building Material Group.....	559,296	606,786	717,999	848,659	755,034
Automotive Group <sup>(3)</sup> .....	2,263,278	2,453,956	2,421,389	2,618,085	2,339,577
All Other Retail Stores Group	--	--	396,765	434,037	270,246
Retail Stores Total.....	<u>7,435,414</u>	<u>8,003,061</u>	<u>8,508,010</u>	<u>9,276,448</u>	<u>7,694,829</u>
All Other Outlets.....	2,374,115	2,574,989	2,845,569	3,168,355	2,623,237
Total All Outlets.....	<u>\$10,320,618</u>	<u>\$11,138,861</u>	<u>\$11,972,371</u>	<u>\$13,140,854</u>	<u>\$10,899,746</u>

Source: California State Board of Equalization, Research and Statistics Division.

\*Preliminary, data for first three-quarters of 1999 only.

<sup>(1)</sup> The Packaged Liquor Stores category is included in the All Other Retail Stores Group beginning in 1997.

<sup>(2)</sup> The Second-hand Merchandise category is included in the All Other Retail Stores Group beginning in 1997.

<sup>(3)</sup> The Boat, Motorcycle, and Plane Dealers category and Mobile Homes, Trailers and Campers category are included in the All Other Retail Stores Group beginning in 1997.

## Agriculture

Agriculture remains a leading source of income in the County. Principal agricultural products are milk, eggs, table grapes, grapefruit, nursery, alfalfa, dates, lemons and avocados.

Four areas in the County account for the major portion of agricultural activity: the Riverside/Corona and San Jacinto/Temecula Valley Districts in the western portion of the County, the Coachella Valley in the central portion and the Palo Verde Valley near the County's eastern border.



The value of agricultural production in the County for 1995 through 1999 is presented in the following table.

**COUNTY OF RIVERSIDE  
VALUE OF AGRICULTURAL PRODUCTION**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Citrus Fruits.....	\$ 109,557,400	\$ 114,470,300	\$ 85,602,500	\$ 110,869,900	\$ 118,236,100
Trees and Vines .....	229,793,200	195,393,800	201,322,500	248,126,600	224,383,600
Vegetables, Melons, Miscellaneous....	228,196,000	164,700,700	164,748,200	204,511,200	238,001,400
Field and Seed Crops.....	79,408,100	84,880,100	90,136,200	77,180,200	64,554,300
Nursery .....	71,169,100	81,942,600	82,827,400	94,549,900	90,377,000
Apiculture.....	4,279,500	6,306,300	5,375,700	6,539,300	5,572,000
Agriculture Products.....	15,604,800	17,681,900	12,535,300	10,431,000	16,006,800
Total Crop Valuation.....	<u>\$ 738,008,100</u>	<u>\$ 665,375,700</u>	<u>\$ 642,547,800</u>	<u>\$ 752,208,100</u>	<u>\$ 757,131,200</u>
Livestock and Poultry Valuation .....	425,422,200	476,444,100	431,374,900	447,298,600	440,230,900
Grand Total.....	<u><u>\$1,163,430,300</u></u>	<u><u>\$1,141,819,800</u></u>	<u><u>\$1,073,922,700</u></u>	<u><u>\$1,199,506,700</u></u>	<u><u>\$1,197,362,100</u></u>

Source: Riverside County Agricultural Commissioner.

**Transportation**

Easy access to job opportunities in the County and nearby Los Angeles, Orange and San Diego Counties is important to the County’s employment picture. Several major freeways and highways provide access between the County and all parts of Southern California. The Riverside Freeway (State Route 91) extends southwest through Corona and connects with the Orange County freeway network in Fullerton. Interstate 10 traverses the width of the County, the western-most portion of which links up with major cities and freeways in the eastern part of Los Angeles County and the southern part of San Bernardino County. Interstate 15 and 215 extend north and then east to Las Vegas, and south to San Diego. The Moreno Valley Freeway (U.S. 60) provides an alternate (to Interstate 10) east-west link to Los Angeles County.

Currently, Metrolink provides commuter rail service to Los Angeles and Orange Counties from several stations in the County. Transcontinental passenger rail service is provided by Amtrak with a stop in Indio. Freight service to major West Coast and national markets is provided by two transcontinental railroads – Burlington Northern/Santa Fe and Union Pacific. Truck service is provided by several common carriers, making available overnight delivery service to major California cities.

Transcontinental bus service is provided by Greyhound Lines. Intercounty, intercity and local bus service is provided by the Riverside Transit Agency to western county cities and communities. The SunLine Transit Agency provides local bus service throughout the Coachella Valley, including the cities of Palm Springs and Indio. The City of Banning also operates a local bus system.

The County seat, located in the City of Riverside, is within 20 miles of the Ontario International Airport in neighboring San Bernardino County. This airport is operated by the Los Angeles Department of Airports. Ontario International Airport serves 6.4 million annual passengers with 10 airlines handling 250 daily flights to provide service to every major city in the U.S. Ontario International Airport airlines include Southwest, United, Delta, Alaska, America West, American, Northwest, Continental and TWA. Commuter service is provided by United Express. Palm Springs Regional Airport is located within 60 miles of the County. It operates service through Alaska Airlines, American, Northwest, United, America West Express, American Eagle, Skywest, US Airways Express, and United Express. County-operated

general aviation airports include those in Thermal, Hemet, Blythe and French Valley. The cities of Riverside, Corona and Banning also operate general aviation airports.

Expansion of the French Valley Airport, located approximately two miles from Temecula, was completed in 1991. This airport provides facilities for light general aviation and small jet traffic, including T-hangars, a fixed-base operator building, and an instrument approach service for all-weather takeoffs and landings. Five major airports (Ontario International, San Diego International, John Wayne Airport, Los Angeles International, and Palm Springs Regional Airport) are within 90 miles of the District.

### **Military Reserve Base**

There is a military base at March Air Reserve Base, which converted from an active duty base to a reserve-only base on April 1, 1996. Plans for joint military and civilian use of the base thereafter are presently being formulated by the March AFB Joint Powers Authority, comprised of the County and the Cities of Riverside, Moreno Valley and Perris.

On July 17, 1994 the March Joint Powers Authority (JPA) Redevelopment Agency established a redevelopment project area, which includes the former March Air Force Base (6,700 acres), and 450 acres off the base. The Agency's task is to mitigate the adverse economic impacts on the surrounding community resulting from the realignment at March and, more specifically, to expedite the completion of the work set out in the reuse plan. The Agency completed an Environmental Impact Report for the redevelopment project using the Air Force's certified Environmental Impact Statement as a basis.

In July 2000, the March Joint Powers Commission approved a long-term land lease with the March Inland Cargo Port Development, LLC, for the construction of the first commercial building at the March Inland Port. The developers subsequently announced they had entered into an arrangement with Philips Consumer Electronics to build a 225,000 square foot logistics and distribution center on 14 acres of leased property at the March Inland Port. 125 new jobs will be created.

## Education and Community Service

There are four (4) elementary school districts, one (1) high school district, eighteen (18) unified (K-12) school districts and four (4) community college districts in the County. Ninety-five percent of all K-12 students attend schools in the unified school districts. The three largest unified districts are Riverside Unified School District, Moreno Valley Unified School District and Corona-Norco Unified School District. Public school enrollment for the period 1995 through 2001 is presented in the table below.

### COUNTY OF RIVERSIDE PUBLIC SCHOOL ENROLLMENT

	<u>1995- 1996</u>	<u>1996- 1997</u>	<u>1997- 1998</u>	<u>1999- 2000</u>	<u>2000- 2001</u>
K-8	198,737	200,838	205,572	211,973	219,433
9-12	<u>73,063</u>	<u>76,483</u>	<u>79,944</u>	<u>83,256</u>	<u>87,622</u>
Total Enrollment	<u>268,800</u>	<u>277,321</u>	<u>285,516</u>	<u>295,229</u>	<u>307,055</u>

Source: California Department of Education, Educational Demographics Unit.

There are seven (7) two-year community college campuses located in the communities of Riverside, Moreno Valley, Norco, San Jacinto, Menifee, Coachella Valley and Palo Verde Valley. There are also two (2) universities and a four-year college located in the City of Riverside -- the University of California, Riverside, La Sierra University and California Baptist College. The University of California, Riverside has opened an extension center in Temecula; additionally, Mt. San Jacinto Community College is located ten miles from Temecula.

There are seventeen (17) hospitals in the County with more than 3.395 beds.

## Recreation

Although the area is considered primarily a winter resort area, off-season convention business is increasing in Palm Springs. The present economy of the area is based on tourism, retail trade, and services reflecting the recreational oriented nature of these communities. The community of Coachella is a highly productive agriculture region growing dates, cotton, citrus, fruit, and table grapes.

Large portions of the Riverside-San Bernardino-Ontario PSMA are located in San Bernardino National Forest, Cleveland National Forest, and Joshua Tree National Monument. Idyllwild, located in San Jacinto Mountains is a mountain recreation area offering limited winter sports, camping, fishing, and mountain resort hotels. The area is also a favorite for artists. The University of California at Riverside provides a summer educational festival which draws dancers, actors, musicians, and other artists to its campus.

The region is also one of Southern California's leading inland water recreation areas. State Parks, Lake Perris, Skinner and Vail Lakes, Lake Elsinore, the Salton Sea, the Colorado River and many other smaller lakes provide swimming, boating, water skiing, and fishing opportunities for visitors.

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**APPENDIX B**  
**AUDITED FINANCIAL REPORTS OF THE DISTRICT**

FINANCIAL STATEMENTS  
Eastern Municipal Water District  
*Years ended June 30, 2000 and 1999  
with Report of Independent Auditors*

Eastern Municipal Water District

Financial Statements

Years ended June 30, 2000 and 1999

**Contents**

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## Report of Independent Auditors

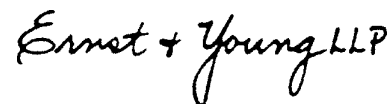
The Board of Directors  
Eastern Municipal Water District

We have audited the accompanying balance sheets of Eastern Municipal Water District (the District) as of June 30, 2000 and 1999, and the related statements of revenue, expenses and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eastern Municipal Water District as of June 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the financial statements, in 1999 the District changed its Revenue Recognition Policy.



August 4, 2000

# Eastern Municipal Water District

## Balance Sheets

	June 30	
	2000	1999
<b>Assets</b>		
Current assets:		
Cash and investments <i>(Note 2)</i>	\$ 32,549,624	\$ 34,298,218
Utility accounts receivable, net of allowances	11,068,849	8,621,021
Property taxes receivable	4,526,021	4,542,569
Accrued interest receivable	3,873,965	4,340,080
Other receivables	314,687	578,585
Prepaid expenses	855,789	886,554
Materials and supplies inventory	3,077,739	3,353,876
Deposits	84,204	73,573
Total current assets	56,350,878	56,694,476
Restricted assets:		
Debt service:		
Cash and investments <i>(Note 2)</i>	38,718,629	38,901,964
Property taxes receivable	1,137,607	1,203,691
Total restricted assets – debt service	39,856,236	40,105,655
Construction:		
Cash and investments <i>(Note 2)</i>	192,765,307	183,112,337
Notes receivable	2,203,190	2,952,468
Total restricted assets – construction	194,968,497	186,064,805
Trust funds – cash and investments <i>(Note 2)</i>	8,601,649	9,014,824
Total restricted assets	243,426,382	235,185,284
Utility plant <i>(Note 3)</i> :		
Land	28,867,131	28,855,650
Structures, improvements and water rights	912,548,338	892,412,061
Equipment and general facilities	68,863,136	65,841,147
Construction in progress	44,518,938	30,114,724
Total utility plant	1,054,797,543	1,017,223,582
Less accumulated depreciation	236,552,192	209,745,018
Net utility plant	818,245,351	807,478,564
Other assets:		
PERS prepaid unfunded liability <i>(Note 4)</i>	4,116,600	4,363,596
Unamortized bond and certificate issuance costs	2,955,192	3,116,488
Tunnel water seepage agreement <i>(Note 10)</i>	1,750,900	1,750,900
Total other assets	8,822,692	9,230,984
Total assets	\$ 1,126,845,303	\$ 1,108,589,308

	June 30	
	2000	1999
<b>Liabilities and fund equity</b>		
Liabilities:		
Current liabilities payable from current assets:		
Accounts payable	\$ 13,722.885	\$ 9,605,599
Accrued expenses	1,947.987	1,567,703
Customer deposits	1,037.747	941,742
Accrued interest payable	191,472	146,231
Current portion of advances for construction, notes and assessments payable (Note 5)	2,075.872	1,190,079
Total current liabilities payable from current assets	<u>18,975,963</u>	<u>13,451,354</u>
Current liabilities payable from restricted assets:		
Debt service:		
Accrued interest payable	6,879,240	7,628,637
Current portion of bonds payable (Note 5)	2,115,000	2,185,000
Current portion of certificates of participation (Note 5)	5,200,000	4,925,000
Total current liabilities – debt service	<u>14,194,240</u>	<u>14,738,637</u>
Less unamortized bond and certificate discount	674,749	675,877
Net current liabilities – debt service	<u>13,519,491</u>	<u>14,062,760</u>
Construction:		
Customer deposits	335,683	317,494
Other payables	692,382	338,048
Advances from developers	5,711,416	5,044,748
Total current liabilities – construction	<u>6,739,481</u>	<u>5,700,290</u>
Trust funds:		
Held for bondholders and landowners	2,775,978	3,513,092
Compensated absences	5,772,322	5,531,125
Total current liabilities – trust funds	<u>8,548,300</u>	<u>9,044,217</u>
Total current liabilities payable from restricted assets	<u>28,807,272</u>	<u>28,807,267</u>
Long-term liabilities (Note 5):		
Advances for construction, notes and assessments payable	34,480,307	35,985,446
Bonds payable	12,675,000	14,790,000
Certificates of participation payable	252,875,000	258,075,000
Reimbursable agreements	942,775	1,066,653
Total long-term liabilities	<u>300,973,082</u>	<u>309,917,099</u>
Less unamortized bond and certificate discount	13,515,234	14,189,983
Net total long-term liabilities	<u>287,457,848</u>	<u>295,727,116</u>
Total liabilities	<u>335,241,083</u>	<u>337,985,737</u>
Fund equity:		
Contributed capital (Note 9)	546,205,327	539,056,201
Retained earnings	245,398,893	231,547,370
Total fund equity	<u>791,604,220</u>	<u>770,603,571</u>
Commitments (Note 11)		
Total liabilities and fund equity	<u>\$ 1,126,845,303</u>	<u>\$ 1,108,589,308</u>

See accompanying notes to financial statements.

Eastern Municipal Water District

Statements of Revenue, Expenses and Changes in Retained Earnings

	Year ended June 30	
	2000	1999
Operating revenues:		
Water sales – domestic	\$ 51,382,241	\$ 46,822,291
Water sales – irrigation	2,636,349	1,767,339
Sewer service charges	25,361,569	25,020,585
Recycled water	1,102,441	1,078,322
Total operating revenues	80,482,600	74,688,537
Operating expenses:		
Purchased water	26,331,029	21,788,173
Water operations	16,348,960	14,845,543
Sewer operations	17,453,978	17,219,223
Recycled water operations	1,313,145	1,439,250
General and administrative	13,429,893	13,909,581
Depreciation and amortization	27,279,095	25,976,208
Total operating expenses	102,156,100	95,177,978
Loss from operations	(21,673,500)	(20,489,441)
Nonoperating revenues:		
Property taxes – general levy	10,778,537	9,804,684
Property taxes – bond levy	3,103,876	3,022,649
Availability charges	3,816,486	3,771,928
Water and sewer connection fees	20,767,021	21,572,990
Interest – operations and restricted funds	13,948,178	12,262,116
Interest – bond funds	341,350	313,190
Other	2,560,252	2,592,730
Total nonoperating revenues	55,315,700	53,340,287
Nonoperating expenses:		
Interest – certificates of participation	15,069,255	15,260,659
Interest – bond	1,077,256	1,247,461
Interest – other	1,446,643	1,037,339
Bond service fees	105,617	101,661
Loss on disposal of assets	254,819	1,380,863
Other	1,837,087	2,713,854
Total nonoperating expenses	19,790,677	21,741,837
Net nonoperating income	35,525,023	31,598,450
Net income	13,851,523	11,109,009
Retained earnings at beginning of year <i>(Note 1)</i>	231,547,370	220,438,361
Retained earnings at end of year	\$ 245,398,893	\$ 231,547,370

*See accompanying notes to financial statements.*

# Eastern Municipal Water District

## Statements of Cash Flows

	Year ended June 30	
	2000	1999
<b>Cash flows from operating activities</b>		
Loss from operations	\$ (21,673,500)	\$ (20,489,441)
Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities:		
Operating activities:		
Depreciation and amortization	27,279,095	25,976,208
Changes in assets and liabilities:		
Decrease (increase) in utility accounts receivable	(2,447,828)	(4,139,732)
Decrease (increase) in other receivables	263,898	(858,503)
Decrease (increase) in prepaid expenses	30,765	(10,560)
Decrease (increase) in materials and supplies inventory	276,137	489,525
Decrease (increase) in deposits	(10,631)	(3,800)
Decrease (increase) in notes receivable	749,278	35,779
Decrease (increase) in other assets	246,996	226,413
Increase (decrease) in accounts payable and other payables	4,117,286	1,919,681
Increase (decrease) in accrued expenses	380,284	1,204,113
Increase (decrease) in customer deposits	96,005	62,696
Increase (decrease) in compensated absences	241,197	339,221
Net cash provided by operating activities	9,548,982	4,751,600
<b>Cash flows from noncapital financing activities</b>		
Proceeds from property taxes, general levy	10,755,354	9,690,019
Proceeds from availability connection fees	3,856,217	3,885,369
Proceeds from other revenues	2,560,252	2,592,730
Net cash provided by noncapital financing activities	17,171,823	16,168,118
<b>Cash flows from capital and related financing activities</b>		
Acquisitions and construction of capital assets	(33,224,492)	(30,640,898)
Repayment of bonds and certificates of participation	(7,110,000)	(7,110,000)
Interest paid	(17,565,754)	(16,795,929)
Proceeds from water and sewer connection fees	20,767,021	21,572,990
Proceeds from notes payable	4,932,968	10,377,413
Repayments of notes payable	(5,676,192)	(3,427,500)
Proceeds from sale of fixed assets	235,830	2,513,057
Proceeds from property taxes – bond levy	3,169,960	3,059,613
(Payments) receipts of customer deposits and developer advances	1,039,191	(1,837,941)
(Payments) receipts of assessment district trust funds	(737,114)	215,109
Net cash used in capital and related financing activities	(34,168,582)	(22,074,086)

# Eastern Municipal Water District

## Statements of Cash Flows (continued)

	Year ended June 30	
	2000	1999
<b>Cash flows from investing activities</b>		
Purchases of investment securities	\$ (160,338,423)	\$ (151,220,698)
Proceeds from sales and maturities of investment securities	157,777,977	130,680,722
Proceeds from earnings on investments	14,755,643	12,612,362
Net cash provided by (used in) investing activities	<u>12,195,197</u>	<u>(7,927,614)</u>
Total increase (decrease) in cash equivalents	4,747,420	(9,081,982)
Cash and cash equivalents at beginning of year	28,302,992	37,384,974
Cash and cash equivalents at end of year <i>(Note 2)</i>	<u>\$ 33,050,412</u>	<u>\$ 28,302,992</u>
Reconciliation of cash and cash equivalents to balance sheets:		
Current cash and investments	\$ 2,044,517	\$ 2,912,656
Restricted cash and investments:		
Debt service	23,935,871	12,941,382
Construction	4,297,062	8,938,030
Trust funds	2,772,962	3,510,924
	<u>\$ 33,050,412</u>	<u>\$ 28,302,992</u>
Supplemental disclosure – contributions of capital assets from developers and others	<u>\$ 7,149,126</u>	<u>\$ 8,871,681</u>

*See accompanying notes to financial statements.*

# Eastern Municipal Water District

## Notes to Financial Statements

June 30, 2000

### **1. Description of Reporting Entity and Summary of Significant Accounting Policies**

#### **Reporting Entity**

The Eastern Municipal Water District (the District) was formed in October 1950, under the California Water Code for the primary purpose of importing Colorado River Water to augment local water supplies. The District serves an area of approximately 355,000 acres (555 square miles), encompassing the westerly third of Riverside County. The District is operated under the direction of a five-member Board of Directors elected for four-year terms. The District presently imports 74% of its water supply from the Metropolitan Water District of Southern California (MWD) and derives the remaining 26% of its water supply from local groundwater sources. The District is a member agency of MWD and is currently entitled to have one District representative sit on the Board.

In 1962, the District began providing wastewater treatment services to customers within its service area and, as a consequence, has become actively involved in the production of recycled water (i.e., wastewater which has been treated to a level acceptable for nondomestic purposes) and has been recognized as an industry leader in management of ground water basins and the related beneficial uses of recycled water. The District's water and wastewater customers include retail customers (e.g., residential, commercial and agricultural) located in both incorporated and unincorporated areas within the District's service area, as well as wholesale customers (e.g., municipalities and local water districts) located within its service area.

The District formed the Eastern Municipal Water District Facilities Corporation (the Facilities Corporation) on April 10, 1979, under the Non-Profit Public Benefit Corporation Law, State of California, for the purpose of rendering financing assistance to the District by acquiring, constructing and operating or providing for the operation of water and wastewater facilities, including water and wastewater transmission pipelines, treatment plants and related facilities for the use, benefit and enjoyment of the public within the District's boundaries. The Facilities Corporation is a component unit of the District.

The District's reporting entity includes the general district, the related improvement districts located within the service area of the general district and the Eastern Municipal Water District Facilities Corporation. Although the District and Facilities Corporation are legally separate entities, the District's Board of Directors is financially responsible for the Facilities Corporation and, therefore, the accompanying financial statements include the

# Eastern Municipal Water District

## Notes to Financial Statements (continued)

### **1. Description of Reporting Entity and Summary of Significant Accounting Policies (continued)**

#### **Reporting Entity (continued)**

accounts and records of the Facilities Corporation as required by generally accepted accounting principles using the blending method. There are no separate financial statements for the Facilities Corporation.

#### **Basis of Accounting**

The District accounts for its operation in an enterprise fund using the accrual basis of accounting. The District's activities include a general fund; investment in utility plant fund; bond interest, redemption and reserve fund; a financing authority; and several assessment districts and zones of benefit. These funds, which are amounts within the enterprise fund type, have been combined in the accompanying balance sheets, statements of revenue, expenses and changes in retained earnings and cash flows. All material interfund and interdivisional transactions have been eliminated.

#### **Pronouncements of GASB and FASB**

Under Government Accounting Standards Board (GASB) Statement No. 20, the District has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

#### **Investments**

Investments are carried at fair value, except for guaranteed investment contracts, which are carried at cost.

#### **Cash Equivalents**

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.



# Eastern Municipal Water District

## Notes to Financial Statements (continued)

### **1. Description of Reporting Entity and Summary of Significant Accounting Policies (continued)**

#### **Utility Plant**

Utility plant assets are stated at cost. Contributed utility plant assets are recorded at fair market value at the time they are received. The contributed assets consist primarily of distribution lines and connections constructed and donated by developers.

Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 50 years.

The District's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project and the interest earned from temporary investment of the debt proceeds, net of arbitrage liability, if any.

#### **Allowance for Doubtful Accounts**

An allowance for doubtful accounts has been established for utility accounts receivable that are 60+ days delinquent at year-end. This allowance amounts to approximately \$116,000 and \$223,000 at June 30, 2000 and 1999, respectively.

#### **Inventories**

Inventory consists primarily of materials used in the construction and maintenance of utility plant and is valued at weighted average cost.

#### **Restricted Assets**

Amounts shown as restricted assets have been restricted by either bond indenture, by law, or contractual obligations to be used for specified purposes, such as servicing bonded debt and construction of plant assets.

# Eastern Municipal Water District

## Notes to Financial Statements (continued)

### **1. Description of Reporting Entity and Summary of Significant Accounting Policies (continued)**

#### **Revenue Recognition**

Revenues are recognized when earned. Metered water accounts are read and billed daily on 30-day cycles. Wastewater customers are also billed and included with the water billing. In certain areas of the District, the wastewater billing is handled by another water utility agency, but accrued as revenues each month. Collections are forwarded monthly, based on actual receipts. Effective fiscal 1999, unbilled water and wastewater charges were accrued for the period from the last meter reading through year-end and are included in accounts receivable. This change to accrue unbilled accounts receivable amounted to approximately \$2,530,000 for the year ended June 30, 1999.

#### **Property Taxes**

Property tax in California is levied in accordance with Article XIII A of the State Constitution at 1% of countywide assessed valuations. The property taxes are placed in a pool and are then allocated to the local governmental units based upon complex formulas. Property tax revenue is recognized in the fiscal year in which taxes have been levied.

The property tax calendar is as follows:

Lien date:	January 1
Levy date:	July 1
Due date:	First installment – November 1 Second installment – February 1
Delinquent date:	First installment – December 11 Second installment – April 11

#### **Debt Issuance Costs**

Bond and certificate discounts, loss on refunding, and issuance costs are deferred and amortized over the term of bonds using the effective interest method. Bond, certificate discounts, and loss on refunding are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recorded as other assets.

# Eastern Municipal Water District

## Notes to Financial Statements (continued)

### **1. Description of Reporting Entity and Summary of Significant Accounting Policies (continued)**

#### **Compensated Absences**

The District has a policy whereby an employee can accumulate unused sick leave and vacation. The sick leave is to be used for extended periods of sickness; however, upon termination or retirement, a portion will be paid as additional benefits to the employee. At retirement, employees who qualify under the Public Employees Retirement Law will be paid for 75% of the then unused sick leave up to the maximum of 529 hours and 50% in excess of the maximum, at their regular payroll rates in effect at the date of termination. All employees who separate from the District, other than for retirement, have completed at least six months of continuous service and/or have been authorized to use their sick leave shall be entitled to receive 25% to 75% of the then unused sick leave at their regular payroll rate. The District has provided for these future costs by accruing 100% of earned and unused sick leave up to the maximum number of hours plus 50% of any hours over the stated maximum, and 100% of the earned and unused vacation.

#### **Use of Estimates**

The financial statements are prepared in conformity with generally accepted accounting principles and, accordingly, include amounts that are based on management's best estimates and judgments.

#### **Retained Earnings**

Approximately 83% of retained earnings have been reserved in accordance with board designations, legal restrictions, and other third-party restrictions.

#### **Reclassifications**

Certain 1999 amounts have been reclassified to conform with the 2000 presentation.

# Eastern Municipal Water District

## Notes to Financial Statements (continued)

### 2. Cash and Investments

Cash and investments are included in the accompanying balance sheet at June 30 as follows:

	2000	1999
Current assets	\$ 32,549,624	\$ 34,298,218
Restricted assets:		
Debt service	38,718,629	38,901,964
Construction	192,765,307	183,112,337
Trust funds	8,601,649	9,014,824
Totals	\$ 272,635,209	\$ 265,327,343

Cash and cash equivalents at June 30 consisted of the following:

	2000	1999
Demand accounts and on hand	\$ 1,090,835	\$ 2,417,994
Fiscal agent deposits – money market funds	25,296,135	14,789,726
California Local Agency Investment Fund	6,663,442	11,095,272
Total cash and cash equivalents	\$ 33,050,412	\$ 28,302,992

### Authorized Investments

Under provision of the District's written investment policy, and in accordance with Section 53601 of the California Government Code, the District may invest in: certificates of deposit, negotiable certificates of deposit, savings accounts, repurchase agreements and reverse repurchase agreements, U.S. treasury bills and notes, bankers acceptances, commercial paper, California Local Agency Investment Fund (LAIF), medium-term notes, obligations issued by the state of California, obligations issued by any California Local Agency, mutual funds, and certain federal agency obligations.

The LAIF is a special fund of the California State Treasury through which local governments may pool investments. Each governmental entity may invest up to \$30,000,000 or an unlimited amount of debt proceeds in the fund.

# Eastern Municipal Water District

## Notes to Financial Statements (continued)

### 2. Cash and Investments (continued)

#### Classification of Deposits and Investments by Credit Risk

The District's deposits and investments are classified into three categories of credit risk. These categories are as follows:

#### Deposits:

- Category 1 – Deposits that are insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2 – Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name. The District had no category 2 deposits.
- Category 3 – Deposits that are uncollateralized or collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the District's name.

#### Investments:

- Category 1 – Investments that are insured or registered or securities held by the District or by its agent in the District's name.
- Category 2 – Investments that include uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. The District had no category 2 investments.
- Category 3 – Investments that include uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the District's name.

Investments in pools managed by other governments, mutual funds, or guaranteed investment contracts are not subject to categorization because they are not evidenced by securities that exist in physical or book entry form.

Eastern Municipal Water District

Notes to Financial Statements (continued)

2. Cash and Investments (continued)

Classification of Deposits and Investments by Credit Risk (continued)

Deposits and investments were categorized as follows at June 30, 2000:

	Category		Bank Balances	Carrying Amount
	1	3		
Deposits:				
Demand deposits	\$ 100.000	\$ 1,582.032	\$ 1,682.032	\$ 1,090.514
Money market funds	-	23,935.871	23,935.871	23,935.871
Assessment District money market funds	-	1,360.264	1,360.264	1,360.264
<b>Total deposits</b>	<b>\$ 100.000</b>	<b>\$ 26,878.167</b>	<b>\$ 26,978.167</b>	<b>\$ 26,386.649</b>

	Category		Not Required to be Categorized	Carrying Value	Fair Value
	1	3			
Investments:					
U.S. Government-sponsored corporate bonds and U.S. Treasury obligations	\$ 178,538.831	\$ -	\$ -	\$ 178,538.831	\$ 178,538.831
Corporate medium-term notes	34,522.575	-	-	34,522.575	34,522.575
California Local Agency bonds	6,986.851	-	-	6,986.851	6,986.851
Guaranteed investment contracts	-	-	12,380.211	12,380.211	12,380.211
Federal agency issues	-	7,156.650	-	7,156.650	7,156.650
Local Agency Investment Fund	-	-	6,663.442	6,663.442	6,663.442
<b>Total investments</b>	<b>\$ 220,048.257</b>	<b>\$ 7,156.650</b>	<b>\$ 19,043.653</b>	<b>246,248.560</b>	<b>\$ 246,248.560</b>

Total deposits and investments \$ 272,635.209

Deposits and investments were categorized as follows at June 30, 1999:

	Category		Bank Balances	Carrying Amount
	1	3		
Deposits:				
Demand deposits	\$ 100,000	\$ 2,935,900	\$ 3,035,900	\$ 2,417,994
Money market funds	-	12,941,382	12,941,382	12,941,382
Assessment District money market funds	-	1,848.344	1,848.344	1,848.344
<b>Total deposits</b>	<b>\$ 100,000</b>	<b>\$ 17,725.626</b>	<b>\$ 17,825.626</b>	<b>\$ 17,207.720</b>

# Eastern Municipal Water District

## Notes to Financial Statements (continued)

### 2. Cash and Investments (continued)

#### Classification of Deposits and Investments by Credit Risk (continued)

	Category		Not Required to be Categorized	Carrying Value	Fair Value
	1	3			
<b>Investments:</b>					
Mortgage-backed securities	\$ 1,460,394	\$ -	\$ -	\$ 1,460,394	\$ 1,460,394
U.S. Government-sponsored corporate bonds and U.S. Treasury obligations	161,493,486	-	-	161,493,486	161,493,486
Corporate medium-term notes	47,208,750	-	-	47,208,750	47,208,750
California Local Agency bonds	7,118,885	-	-	7,118,885	7,118,885
Guaranteed investment contracts	-	-	6,880,211	6,880,211	6,880,211
Federal agency issues	-	12,862,625	-	12,862,625	12,862,625
Local Agency Investment Fund	-	-	11,095,272	11,095,272	11,095,272
<b>Total investments</b>	<b>\$ 217,281,515</b>	<b>\$ 12,862,625</b>	<b>\$ 17,975,483</b>	<b>248,119,623</b>	<b>\$248,119,623</b>
<b>Total deposits and investments</b>				<b><u>\$265,327,343</u></b>	

Fiscal agents, on behalf of the District, hold and invest funds in the District's name from long-term debt issuances. Fiscal agents are mandated by bond indentures as to the types of investments in which debt proceeds can be invested.

During the years ended June 30, 2000 and 1999, the District entered into various repurchase agreements in order to obtain short-term operating funds. The District had no outstanding repurchase agreements at June 30, 2000 and 1999.

The District's investment in LAIF is \$6,663,442 and \$11,095,272 in 2000 and 1999, respectively. This investment's value is based on information provided by the State Treasurer's office. The carrying value of the District's position in the fund is materially consistent with the fair value of the fund shares.

# Eastern Municipal Water District

## Notes to Financial Statements (continued)

### 3. Utility Plant

A summary of the changes in utility plant for the years ended June 30, 2000 and 1999 is as follows:

	Balance June 30, 1999	Additions	Deletions and Transfers	Balance June 30, 2000
Land	\$ 28,855,650	\$ 11,481	\$ -	\$ 28,867,131
Water plant, lines and equipment	321,918,251	6,264,463	(117,288)	328,065,426
Water capacity rights	15,077,425	-	-	15,077,425
Sewer plant, lines and equipment	555,416,385	14,580,750	(591,648)	569,405,487
Equipment and general facilities	65,841,147	3,275,622	(253,633)	68,863,136
Construction in progress	30,114,724	30,323,370	(15,919,156)	44,518,938
	1,017,223,582	54,455,686	(16,881,725)	1,054,797,543
Less accumulated depreciation	209,745,018	27,279,095	(471,921)	236,552,192
Net utility plant	\$ 807,478,564	\$ 27,176,591	\$ (16,409,804)	\$ 818,245,351

	Balance June 30, 1998	Additions	Deletions and Transfers	Balance June 30, 1999
Land	\$ 29,117,523	\$ 262,197	\$ (524,070)	\$ 28,855,650
Water plant, lines and equipment	304,456,312	17,964,079	(502,140)	321,918,251
Water capacity rights	6,159,925	8,917,500	-	15,077,425
Sewer plant, lines and equipment	527,041,793	29,391,627	(1,017,035)	555,416,385
Equipment and general facilities	69,468,308	2,187,884	(5,815,045)	65,841,147
Construction in progress	52,039,286	21,654,962	(43,579,524)	30,114,724
	988,283,147	80,378,249	(51,437,814)	1,017,223,582
Less accumulated depreciation	187,733,180	25,976,208	(3,964,370)	209,745,018
Net utility plant	\$ 800,549,967	\$ 54,402,041	\$ (47,473,444)	\$ 807,478,564

### 4. PERS Prepaid Unfunded Liability

The District amended its PERS contract on January 4, 1998 to implement a 2% at 55 retirement program. The actuarial division of PERS determined that the present value impact on the District was an unfunded liability of \$4,939,895. This would result in an employer rate increase of 1.495% of eligible payroll over the next 20 years. However, the District opted to pay this liability in advance and is amortizing this prepaid amount over the next 20 years. The current portion is \$246,996, and future deferred expense is \$4,116,600 at June 30, 2000.



Eastern Municipal Water District

Notes to Financial Statements (continued)

**5. Long-Term Debt**

A summary of the long-term debt at June 30 is as follows:

	2000	1999
Advances for construction, notes assessments payable	\$ 36,556,179	\$ 37,175,525
Certificates of participation	258,075,000	263,000,000
General obligation bonds	14,790,000	16,975,000
Reimbursable agreements	942,775	1,066,653
	310,363,954	318,217,178
Less current portion	9,390,872	8,300,079
Total	\$ 300,973,082	\$ 309,917,099

The future maturities of long-term debt as of June 30, 2000 are as follows:

Year ending June 30:	Principal	Interest	Total
2001	\$ 9,375.907	\$ 16,359.960	\$ 25,735.867
2002	10,973.260	15,979.788	26,953.048
2003	10,488,285	15,607.120	26,095.405
2004	10,869,125	15,096.799	25,965.924
2005	11,366.165	14,591.036	25,957,201
Thereafter	257,291.212	139,970.677	397,261.889
Total	\$ 310,363.954	\$ 217,605.380	\$ 527,969.334

Eastern Municipal Water District

Notes to Financial Statements (continued)

**5. Long-Term Debt (continued)**

**Advances for Construction, Notes and Assessments Payable**

The notes payable are general obligations of the District's individual improvement districts which issued the notes and are payable from the revenues and taxes of the respective improvement districts. The following are outstanding as of June 30:

	<u>2000</u>	<u>1999</u>
Rancho California Water District, noninterest bearing agreement to be reimbursed at the rate of \$2.50 per acre foot as water is used. Agreement is expected to be satisfied in the next fiscal year.	\$ 14,398	\$ 41,864
Elsinore Valley Municipal Water District, financial participation agreement note; interest rates ranging from 6.25% to 8.25%; various annual principal installments ranging from approximately \$9,000 to \$29,000 through July 15, 2011.	231,738	245,797
Santa Ana Watershed Project Authority (SAWPA) agreement for purchase of capacity rights in the Santa Ana Regional Interceptor (SARI) pipeline; interest rate of 6%; annual payment including principal and interest of \$365,000 through June 30, 2012.	3,060,103	3,231,229
Santa Ana Watershed Project Authority (SAWPA) agreement for purchase of additional capacity rights in the Santa Ana Regional Interceptor (SARI) pipeline; interest rate of 6%; annual payment including principal and interest of \$696,788 through July 1, 2018.	3,567,029	7,774,837

Eastern Municipal Water District

Notes to Financial Statements (continued)

**5. Long-Term Debt (continued)**

**Advances for Construction, Notes and Assessments Payable (continued)**

	<b>2000</b>	<b>1999</b>
City of Moreno Valley Utility Tax liability for Moreno Valley Mutual Water District (MVMWD) acquired July 2, 1997. Assignment of promissory notes payable accepted through purchase of MVMWD, with an interest rate at 6%. monthly payment of principal and interest of \$1,000, through August 15, 2000.	\$ 1,704	\$ 13,223
1992 State of California Agricultural Drainage Water Management Loan as discussed below.	7,050,178	2,685,860
1991 Federal Reclamation Facilities Project Loan as discussed below.	22,631,029	23,182,715
Total	36,556,179	37,175,525
Less current portion	2,075,872	1,190,079
Total long-term advances for construction, notes and assessments payable	\$ 34,480,307	\$ 35,985,446

**1992 State of California Agricultural Drainage Water Management Loan**

On January 15, 1992, the District executed a loan contract with the State (California) Water Resources Control Board to provide financing for a portion of the Menifee Basin Desalter Project. The original loan to the District was \$5,800,000; however, the State increased the amount of lent funds to \$11,600,000 effective July 1, 1994. As of June 30, 2000, the District had received \$8,150,439 of loan proceeds which are repayable in varying annual installments currently ranging from \$636,402 to \$1,010,190 on each January 31 through 2012 until final payment scheduled for November 17, 2012 at an interest rate of 3.1%. The repayment schedule is subject to change depending on the total amount borrowed and the final completion date of the project.

## Eastern Municipal Water District

### Notes to Financial Statements (continued)

#### 5. Long-Term Debt (continued)

##### 1991 Federal Reclamation Facilities Project Loan

In October 1991, the District entered into a contract with the federal government under the provisions of Public Law 984 to provide funding for a portion of the District's Phase I – Reclamation Facilities Project. The contract is being administered by the United States Department of the Interior Bureau of Reclamation pursuant to the Small Reclamation Projects Act of 1956 (the Act). The total estimated project cost is \$46,046,400 with the District contributing \$13,621,400 and the federal government providing funding up to the balance of \$32,425,000, providing that funds are available under the Act.

A summary of the total federal government funding available under the contract at project completion (providing that the entire funding is utilized) is as follows:

Total federal funding	\$ 32,425,000
Less nonrepayable grant portion	<u>6,733,300</u>
Maximum loan proceeds including interest	<u>\$ 25,691,700</u>
Components of loan proceeds:	
Water supply	\$ 20,219,400
Fish and wildlife	<u>4,147,300</u>
Net loan proceeds	<u>24,366,700</u>
Interest charged during construction	<u>1,325,000</u>
Maximum loan proceeds	<u>\$ 25,691,700</u>

The net loan proceeds are repayable in 15 annual installments varying from \$552,900 to \$2,650,300 plus interest at rates varying from 0% to 9% (7.875% at June 30, 2000) on the fish and wildlife component and a portion of the water supply component. In the event the total repayment obligation is less than \$24,366,700, the above repayment schedule will still apply until the obligation is paid in full, in effect reducing the length of the repayment period. Repayment of the loan started on May 1, 1999, with the District making the first and second annual payments including \$1,110,200 of principal and \$710,612 in interest.

## Eastern Municipal Water District

### Notes to Financial Statements (continued)

#### **5. Long-Term Debt (continued)**

##### **1991 Federal Reclamation Facilities Project Loan (continued)**

As of June 30, 2000 and 1999, the District had received \$31,069,852 and \$31,005,635, respectively, on this contract of which the grant portion amounts to \$6,726,623 and \$6,712,720, respectively, and the loan portion amounts to \$24,343,229 and \$24,292,915, respectively. As of June 30, 2000, the outstanding loan balance is \$22,631,029.

##### **Certificates of Participation Payable**

###### **1998A Refunding Certificates of Participation**

In January 1998, the Facilities Corporation issued \$39,655,000 Water and Sewer Revenue Refunding Certificates of Participation, Series A to prepay \$36,420,000 of the District's 1991 Certificates of Participation, to fund a debt service reserve established for the certificates, and to pay the principal bond insurance policy premium and issuance costs. The certificates of participation include \$12,835,000 of serial certificates maturing in varying amounts from \$70,000 to \$3,025,000 annually from July 1, 1998 to July 1, 2013; with interest payable semiannually at rates ranging from 3.60% to 5.00%. Also, in this certificate issue are \$26,820,000 of term certificates due in varying amounts on July 1, 2018, 2021 and 2023, with interest payable semiannually at rates ranging from 4.75% to 5.00%.

###### **1997A Refunding Certificates of Participation**

In July 1997, the Facilities Corporation issued \$21,835,000 Water and Sewer Revenue Refunding Certificates of Participation, Series A to prepay \$19,605,000 of the District's 1991A Certificates of Participation, to fund a debt service reserve established for the certificates, and to pay the principal bond insurance policy premium and issuance costs. The certificates of participation include \$1,655,000 of serial certificates maturing in varying amounts from \$55,000 to \$125,000 annually from July 1, 1998 to July 1, 2017; with interest payable semiannually at rates ranging from 3.75% to 5.25%. Also, in this certificate issue are \$20,180,000 of term certificates due in varying amounts on July 1, 2023, with interest payable semiannually at rates of 5.25%.

# Eastern Municipal Water District

## Notes to Financial Statements (continued)

### **5. Long-Term Debt (continued)**

#### **1993A Certificates of Participation**

In May 1993, the Facilities Corporation issued \$46,340,000 in Certificates of Participation Series 1993A. Proceeds of the sale of certificates were intended to be used for the principal purpose of financing the cost of design, acquisition and construction of certain capital improvements (the 1993A Project) to the District's water and sewer system. The District's 1993A Project includes, among others, four major projects: (1) the Mills Treatment Plant Feeder Project; (2) the Regional Water Treatment Plant Storage Facilities; (3) the Sun City Water Reclamation Plant Discharge Facilities; and (4) the Simpson/Fruitvale Phase I – Distribution Pipeline. However, other major water or reclamation projects may be substituted if deemed appropriate by the Board of Directors.

The certificates of participation include \$12,960,000 of serial certificates maturing in varying amounts from \$765,000 to \$1,305,000 annually from July 1, 1995 to July 1, 2007; with interest payable semiannually at rates ranging from 3.3% to 5.2%. Also, in this certificate issue are \$33,380,000 of term certificates due in varying amounts on July 1, 2013 and 2023, with interest payable semiannually at rates ranging from 5.25% to 5.375%. Certificates maturing July 1, 2004 and after may be called prior to maturity at par plus a premium of 2% in 2004, 1% in 2005, and 0% thereafter. The term certificates are subject to mandatory sinking fund requirements beginning July 1, 2008, in amounts varying from \$1,375,000 in 2008 to \$2,980,000 in 2023.

#### **1993B Refunding Certificates of Participation**

In May 1993, the Facilities Corporation issued \$65,795,000 in Refunding Certificates of Participation Series 1993B. Proceeds of the sale of certificates were used to provide monies for the partial defeasance of \$59,350,000 Series 1991 certificates of participation, to pay the municipal bond insurance policy premium for the certificates and to pay the costs of issuance.

The certificates of participation are subject to mandatory repayment in varying amounts from \$165,000 to \$7,570,000 annually from July 1, 1993 to July 1, 2020, with interest payable semiannually at the weekly interest rate (as determined by the Remarketing Agent) unless converted to a fixed interest rate at the District's option. The District has entered into a Swap Agreement with AIG Financial Products Corporation (AIG-FP) for the purpose of hedging against interest rate fluctuations arising from the issuance of the 1993B Certificates as variable rate obligations. The Swap Agreement provides for the

## Eastern Municipal Water District

### Notes to Financial Statements (continued)

#### **5. Long-Term Debt (continued)**

##### **1993B Refunding Certificates of Participation (continued)**

District to make payments to AIG-FP on a fixed-rate basis on notional amounts totaling \$64,070,000 and for AIG-FP to make reciprocal payments based on a variable-rate basis which results in a fixed annual rate of interest to the District of 5.135% on the certificates. The District may prepay all or part of the certificates at any time at par while the certificates remain as variable interest rate securities. If, however, the District elects to convert the certificates to a fixed interest rate, the certificates are subject to prepayment at par plus a premium ranging from 2% to 0% (declining by .5% every two years) depending on the years remaining to maturity as of the fixed-interest rate conversion date.

##### **1991 Certificates of Participation**

In March 1991, the Facilities Corporation issued \$128,690,000 in Certificates of Participation Series 1991. Proceeds of the sale of certificates were used for the principal purpose of financing the cost of the design, acquisition and construction of certain wastewater capital improvements (the 1991 Project) to the District's water and sewer system.

The certificates of participation include \$26,815,000 of serial certificates maturing in varying amounts from \$1,440,000 to \$2,910,000 annually from July 1, 1993 to July 1, 2005; with interest payable semiannually at rates ranging from 5.1% to 7.5%. Also, in this issue are \$101,875,000 of term certificates due in varying amounts on July 1, 2008, 2012, 2020 and 2023, with interest payable semiannually at rates ranging from 6% to 6.75%. Certificates maturing prior to July 1, 2002 and on July 1, 2012 are not subject to prior redemption; Certificates maturing July 1, 2002 and after (except those maturing on July 1, 2012) may be called prior to maturity at par plus a premium of 2% in 2002, 1% in 2003, and 0% thereafter. The term certificates are subject to mandatory sinking fund requirements beginning July 1, 2006, in amounts varying from \$3,105,000 in 2006 to \$9,115,000 in 2023.

# Eastern Municipal Water District

## Notes to Financial Statements (continued)

### 5. Long-Term Debt (continued)

#### 1991A Refunding Certificates of Participation

In June 1991, Facilities Corporation issued \$99,995,000 in Refunding Certificates of Participation Series 1991A. Proceeds of the sale of certificates were used to provide monies for the defeasance of the 1988 and 1989 certificates of participation to pay the municipal bond insurance policy premium for the certificates and to pay the costs of issuance.

The certificates of participation include \$22,310,000 of serial certificates maturing in varying amounts from \$1,095,000 to \$2,280,000 annually from July 1, 1992 to July 1, 2005, with interest payable semiannually at rates ranging from 4.5% to 7.15%. Also, in this certificate issue are \$77,685,000 of term certificates due in varying amounts on July 1, 2009, 2020 and 2023, with interest payable semiannually at rates ranging from 6.3% to 6.9%. Certificates maturing prior to July 1, 2002 are not subject to prior redemption; certificates maturing July 1, 2002 and after (except those maturing on July 1, 2023) may be called prior to maturity at par plus a premium of 1% in 2002, 5% in 2003, and 0% thereafter. Certificates maturing on July 1, 2023 may be called prior to maturity at par plus a premium of 1% in 1997, 5% in 1998, and 0% thereafter. The term certificates are subject to mandatory sinking fund requirements beginning July 1, 2006, in amounts varying from \$2,425,000 in 2006 to \$6,975,000 in 2023.

Certificates of participation payable consist of the following at June 30:

	2000	1999
1998A refunding certificates of participation	\$ 39,170,000	\$ 39,365,000
1997A refunding certificates of participation	21,695,000	21,750,000
1993A certificates of participation	42,225,000	43,115,000
1993B refunding certificates of participation	64,070,000	64,285,000
1991 certificates of participation	21,055,000	23,045,000
1991A refunding certificates of participation	69,860,000	71,440,000
Total	258,075,000	263,000,000
Less current portion	5,200,000	4,925,000
Total long-term certificates of participation payable	\$ 252,875,000	\$ 258,075,000



Eastern Municipal Water District

Notes to Financial Statements (continued)

**5. Long-Term Debt (continued)**

**Bonds Payable**

The District's general obligation bonds are callable prior to maturity subject to certain call premiums. The liability for the general district bonds and improvements within the respective special districts and the funds for retirement thereof are derived from a bond redemption levy in the assessed valuation of the individual districts.

Bonds payable consist of the following at June 30:

	2000	1999
<p>General Obligation Bonds issued 1975 and prior:                      Callable provision for each bond issue is in inverse order of maturity and bond number and at varying premiums on the call date or any interest date thereafter of 1/2% plus 1/4% for each 12-month period or fraction thereof to maturity but not to exceed 4% of principal. Interest rates of the various bond issues outstanding range from 3 1/2% to 9%. Bonds matured in 2000.</p>	\$	- \$ 60,000
<p>1984 General Obligation Bonds:                      Interest rates range from 8 1/2% to 11 3/8%.                      Bonds mature annually in varying amounts through 2004.</p>	2,855,000	3,665,000
<p>1991 General Obligation Refunding Bonds:                      Interest rates of the various bond issues outstanding range from 4.6% to 6.4%.                      Bonds mature annually in varying amounts through 2004.</p>	3,065,000	3,610,000

Eastern Municipal Water District

Notes to Financial Statements (continued)

**5. Long-Term Debt (continued)**

**Bonds Payable (continued)**

	<u>2000</u>	<u>1999</u>
1995 General Obligation Refunding Bonds:		
Interest rates of the various bond issues outstanding range from 3.9% to 5.5%.		
Bonds mature annually in varying amounts through 2009.	\$ 8,870,000	\$ 9,640,000
Total	<u>14,790,000</u>	16,975,000
Less current portion	<u>2,115,000</u>	2,185,000
Total long-term bonds payable	<u>\$ 12,675,000</u>	<u>\$ 14,790,000</u>

**Reimbursable Agreements**

The District receives connection fees from customers within its service area that are required to be remitted to either developers or other governmental agencies depending on the nature of the agreements (i.e., whether the other entities need to recover the costs associated with placing the water or sewer lines in service).

**Defeasance of Debt**

The District defeased or partially defeased certain certificates of participation and general obligation bonds by placing the proceeds of new debt in irrevocable trusts to provide for all future debt service payments on the defeased debt. Accordingly, the trusts' assets and the liability for the defeased debt issues are not included in the District's financial statements. The outstanding balances of the debt considered defeased as of June 30 are as follows:

	<u>2000</u>	<u>1999</u>
1991A Refunding Certificates of Participation	\$ 19,605,000	\$ 19,605,000
1988 Certificates of Participation	25,230,000	27,100,000
1989 Certificates of Participation	43,450,000	45,730,000
1991 Certificates of Participation	95,770,000	95,770,000
1989 General Obligation	9,350,000	10,050,000
Total	<u>\$ 193,405,000</u>	<u>\$ 198,255,000</u>

# Eastern Municipal Water District

## Notes to Financial Statements (continued)

### **6. Defined Benefit Pension Plan**

#### **Plan Description**

The District contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the state of California. PERS issues a separate systemwide financial report which can be obtained from the PERS executive office – 400 P Street, Sacramento. CA 95814.

All full-time District employees are eligible to participate in PERS with benefits vesting after five years of service. District employees who retire at age 50 with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in increasing percentage increments up to 2% of their average salary during their last year of employment, for each year of credited service. PERS also provides death and disability benefits.

#### **Funding Policy**

District employees are required to contribute 7% of their annual salary to PERS. The District is required to contribute the remaining amount necessary to fund the benefits of its members, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the Board of Administration. The District paid the employer and employees' contributions through June 20, 1998. Effective June 21, 1998, the District began to pay 5.485% and the employee paid 1.515% of the required employee contribution. Effective June 18, 2000, the District began to pay the total 7% of the required employee contribution.

#### **Annual Pension Cost**

PERS uses the Entry Age Normal Actuarial Cost Method, which is a projected benefit cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued. According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from date of employment until retirement. PERS uses a modification of the Entry Age Cost Method in which the employer's total normal cost is expressed as a level percentage of payroll. PERS also uses the level percentage of payroll method to amortize any unfunded actuarial liabilities; however, the District has no unfunded actuarial liability.

# Eastern Municipal Water District

## Notes to Financial Statements (continued)

### 6. Defined Benefit Pension Plan (continued)

#### Annual Pension Cost (continued)

The significant actuarial assumptions used to compute the actuarially determined contribution requirement included: (a) a rate of return on the investment of present and future assets of 8.25% a year compounded annually; (b) projected payroll increases of 3.75% a year compounded annually, attributable to inflation; (c) projected annual salary and merit increases that vary by duration of service; and (d) a rate of inflation of 3.5%.

The total contribution paid to the PERS for 2000 and 1999 was \$1,593,245 and \$1,541,613, respectively. In 2000, the District paid \$1,421,675 and the employees paid \$171,570. In 1999, the District paid \$1,374,642 and the employees paid \$166,971. The contributions were made in accordance with actuarially determined requirements computed through an actuarial valuation performed prior to the beginning of each fiscal year by the PERS Actuarial Division. The combined employer and employee contribution consisted of 7.0% of current covered payroll and no amount to amortize unfunded actuarial accrued liability, since the District has an overfunded actuarial liability position as a result of actuarial gains. In order to maintain a level pattern of contributions, the District has chosen to amortize the overfunded actuarial liability as a partial offset in perpetuity to contributions otherwise required.

#### Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. The District's specific three-year trend information follows:

Three-year trend information for PERS (dollar amounts in millions):

<b>Fiscal Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
06/30/98	\$ 2.14	100%	\$ -
06/30/99	1.54	100%	-
06/30/00	1.59	100%	-

# Eastern Municipal Water District

## Notes to Financial Statements (continued)

### 6. Defined Benefit Pension Plan (continued)

#### Trend Information (continued)

Schedule of funding progress for PERS (dollar amounts in millions):

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Entry Age Actuarial Accrued Liability (AAL)	Overfunded AAL (OAAL) (2)-(1)	Funded Ratio (1)(2)	(5) Covered Payroll	OAAL as a Percentage of Covered Payroll (4)(5)
06/30/96	\$ 63.88	\$ 61.62	\$ 2.26	103.7%	\$ 20.09	11.22%
06/30/97	75.96	65.53	10.43	115.9%	20.98	49.71%
06/30/98	101.02	70.95	30.07	142.4%	21.07	142.75%

### 7. Defined Contribution Plan

The District has a 401(a) money purchase defined contribution plan (Plan) covering all employees of the District who have completed one year of service. The Plan was adopted in January 1978 and may be amended by the District provided the trustee joins in such amendment. The District is required to contribute 7.15% of each eligible employee's compensation up to a maximum annual compensation of \$16,500. The District's contributions to the Plan were \$570,649 and \$561,199 in 2000 and 1999, respectively.

### 8. Post-Employment Benefits

The District provides post-employment health care benefits to all qualified employees who meet the District's Public Employment Retirement System (PERS) current plan requirements. For all regular District employees, five years of full-time, continuous employment with the District is required. In addition, the employee must be at least 50 years of age and have participated in the PERS plan for at least five years as well as receiving service retirement benefits pursuant to the terms and conditions of the District's PERS plan. The District pays a fixed sum, not to exceed 100% of the medical plan premium from the date of retirement for the life of the retired employee. Depending on the PERS payment plan chosen by the employee for spousal coverage after the death of the employee, the District would also cover the spouse for life under the same plan.

## Eastern Municipal Water District

### Notes to Financial Statements (continued)

#### 8. Post-Employment Benefits (continued)

The District finances the plan on a pay-as-you-go basis. In 2000 and 1999, the District paid \$585,995 and \$460,549, respectively, in post-employment health care benefits, net of retiree contributions, and had 144 and 141 retired eligible employees, respectively.

#### 9. Contributed Capital

The changes in contributed capital at June 30 are summarized as follows:

	<u>2000</u>	<u>1999</u>
Balance at beginning of year	\$ 539,056,201	\$ 530,184,520
Utility plant contributed by developers and others	7,149,126	8,871,681
Balance at end of year	<u>\$ 546,205,327</u>	<u>\$ 539,056,201</u>

#### 10. Tunnel Water Seepage Agreement

In 1951, the District entered into an agreement with the Metropolitan Water District setting forth the terms and conditions of annexation to the Metropolitan Water District service area. Among other provisions, the agreement provided that for all future time, the tunnel water seepage of the Metropolitan Water District's San Jacinto tunnel would come under the control and be delivered free to the District. In 1953, the District established an intangible asset that represented the value of this agreement based on an engineering report by Warren O. Wagner, consulting hydraulic engineer. The original appraisal was established at \$1,669,000 based on an annual value of this additional water at 5,840 acre feet per year at \$10.00 per acre foot and a money value of 3.5%. This value was reevaluated in 1957 with Mr. Wagner and a revised value of \$1,750,900 was established based on \$12.00 per acre foot and a 4.0% value of money.

#### 11. Commitments

##### Construction Contracts

The District is committed to approximately \$2,440,000 of open construction contracts as of June 30, 2000.

# Eastern Municipal Water District

## Notes to Financial Statements (continued)

### 11. Commitments (continued)

#### Claims and Judgments

The District is exposed to various risks of loss related to torts, theft, damage, and destruction of assets, error and omissions, road and walkway design hazards, vehicle accidents and natural disasters for which the District maintains various insurance programs. The District has entered into contracts to supervise and administer these programs.

The District retains risk per occurrence of \$300,000 for loss sustained by the employer (District), because of liability imposed on the employer (District) by the Workers' Compensation Act, with unlimited excess insurance above the self-insured retention (SIR) of \$300,000. For general liability, the District maintains excess insurance coverage of \$10 million per occurrence with a \$2,000,000 SIR.

Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The liability for claims and judgments is included in accrued expenses. Changes in claims payable for the years ended June 30 are as follows:

	<u>2000</u>	<u>1999</u>
Unpaid claims, beginning	\$ 594,002	\$ 140,000
Incurred claims and changes in estimates	950,139	1,039,185
Claim payments	(698,908)	(585,183)
Unpaid claims, ending	<u>\$ 845,233</u>	<u>\$ 594,002</u>

#### Assessment District Bonds

These bonds are not direct liabilities of the District, and their payment is secured by valid assessment liens on certain lands. Reserves have been established from the bond proceeds to meet delinquencies should they occur. Neither the faith and credit nor the taxing power of the District is pledged to the payment of the bonds. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay those delinquencies out of any other available funds. The District acts solely as an agent for those paying assessments and the bond holders. The Assessment District Bonds outstanding at June 30,

Eastern Municipal Water District

Notes to Financial Statements (continued)

2000 and 1999, were \$16,663,970 and \$18,661,423, respectively, and are not included in the District's financial statements.



## Eastern Municipal Water District

### Notes to Financial Statements (continued)

#### **12. Contingencies**

The District is a defendant in various legal actions. Management believes that the ultimate resolution of these actions will not have a significant effect on the District's financial position or results of operations.

#### **13. Santa Ana Watershed Project Authority**

The Santa Ana Watershed Project Authority was formed in 1975, pursuant to the provisions of Article 1, Chapter 5, Division 7, Title 1 of the Government Code of the State of California relating to the joint exercise powers common to public agencies, for the purpose of undertaking projects for water quality control and protection and pollution abatement in the Santa Ana Watershed. The authority is governed by a ten-member Board of Commissioners, constituting of two members from each of the five-member agencies. Eastern Municipal Water District became a member in September 1984. An independent audit report is prepared annually and is available for public disclosure.

#### **14. Groundwater Pumpers Association**

This association was formed in 1991 and includes membership from local agencies that are concerned about the Hemet/San Jacinto water basin. Members include the District, Lake Hemet Municipal Water District, City of Hemet and the City of San Jacinto. Each member has financially participated and the District has deposited a total of \$64,384 since its formation. This represents approximately 51% of all deposits. At June 30, 2000, the total association cash was \$37,625. Therefore, the District's share is approximately \$19,189. At this time, the association is inactive and resolution of the remaining funds has not been determined.

#### **15. Effect of New Pronouncements**

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. This statement establishes financial reporting standards for state and local governments. Under the revised requirements, governmental financial statements will include management's discussion and analysis (MD&A), basic financial statements from both a government-wide perspective and a fund perspective and required supplementary information.

# Eastern Municipal Water District

## Notes to Financial Statements (continued)

### **15. Effect of New Pronouncements (continued)**

GASB No. 34 will become effective in three phases based on a government's total annual revenues in the first year ending after June 15, 1999. The District will be required to implement GASB No. 34 for the first fiscal year ending June 30, 2002.

The District has elected not to early implement GASB No. 34 and has determined its effects will not be material on the District's financial statements.

## APPENDIX C

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

#### I. SUMMARY OF CERTAIN PROVISIONS OF THE MASTER RESOLUTION, THE 1991A TRUST AGREEMENT AS AMENDED AND SUPPLEMENTED BY THE FIRST SUPPLEMENT TO THE 1991A TRUST AGREEMENT AND SECOND SUPPLEMENT TO THE 1991A TRUST AGREEMENT AND THE 1991 INSTALLMENT SALE AGREEMENT AS AMENDED AND SUPPLEMENTED BY THE FIRST AMENDMENT TO THE 1991A INSTALLMENT SALE AGREEMENT AND THE SECOND AMENDMENT TO THE 1991A INSTALLMENT SALE AGREEMENT

##### A. CERTAIN DEFINITIONS

“Accreted Values” means, with respect to any Capital Appreciation Bonds or Capital Appreciation Certificates or other Capital Appreciation Parity Obligations, (i) as of any Valuation Date, the Accreted Value of any Capital Appreciation Bond or any Capital Appreciation Certificate or other Capital Appreciation Parity Obligations set forth for such date in the instrument authorizing such Capital Appreciation Bond or Capital Appreciation Certificate or other Capital Appreciation Parity Obligation, and (ii) as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Accreted Values for such Valuation Dates.

“Accreted Value Payment Dates” means any Installment Sale Payment Date or Other Parity Obligation Payment Date on which Accreted Value is payable.

“Annual Information” means the information specified under the continuing disclosure provisions of the 1991A Trust Agreement.

“Appreciated Value” means, with respect to any Deferred Income Bond or Deferred Income Certificate or other Deferred Income Parity Obligation, prior to the Interest Commencement Date, (i) as of any Valuation Date, the Appreciated Value of any Deferred Income Bond or any Deferred Income Certificate or other Deferred Income Parity Obligation set forth for such date in the instrument authorizing such Deferred Income Bonds or Deferred Income Certificate or other Deferred Income Parity Obligation and (ii) as of any date other than a Valuation Date, the sum of (a) the Appreciated Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Appreciated Values for such Valuation Dates.

“Appreciated Value Payment Date” means any Installment Sale Payment Date or Other Parity Obligation Payment Date on which Appreciated Value is payable.

“Assumed Amortization Periods” means, with respect to any Parity Obligations, the principal and interest requirements of which are to be recast for purposes of a calculation of the Debt Service Coverage Ratio or in connection with the incurrence of Interim Parity Obligations, the period of time determined, at the election of the District, pursuant to either paragraph (a) or paragraph (b) below:

- (a) twenty-five (25) years; or

(b) the period of time, not exceeding twenty-five (25) years, set forth in an opinion of an Experienced Banker or Advisor, selected by the District, as being the maximum period of time over which obligations having comparable terms and security issued or incurred by water and sewer districts of comparable type and credit standing would, if then being offered, be marketable on reasonable and customary terms.

“Assumed Interest Rate” means, with respect to any Parity Obligations, the principal and interest requirements of which are to be recast for purposes of a calculation of the Debt Service Coverage Ratio or in connection with the incurrence of Interim Parity Obligations, the rate per annum determined as of the last Business Day of the preceding calendar month and determined, at the election of the District, pursuant to clause (i) or clause (ii) below:

(i) a rate per annum equal to (1) ninety percent (90%), if interest on the Parity Obligations is exempt from Federal income taxation, or (2) one hundred ten percent (110%), if interest on the Parity Obligations is subject to Federal income taxation, of the most recently published daily yields to maturity of United States Treasury securities adjusted to a constant maturity of thirty (30) years as published by the Board of Governors of the Federal Reserve System; or

(ii) the rate per annum set forth in an opinion of an Experienced Banker or Advisor, selected by the District, as being the lowest rate of interest (which may be a rate which reflects the exemption of such interest from Federal income taxation if such exemption is then available) at which obligations having comparable terms and security, amortized on a level debt service basis over a period of time equal to the Assumed Amortization Period, and issued or incurred by water and sewer districts of comparable type and credit standing would, if being offered as of such last Business Day of the calendar month, be marketable on reasonable and customary terms, provided that such rate shall not be less than the rate specified in the “Revenue Bond Index” published in The Bond Buyer, or successor index, as in effect on the date of such opinion.

“Average Annual 1991A Installment Sale Payments” means the average total 1991A Installment Sale Payments payable per 1991A Installment Sale Payment Year during the period commencing with the then current 1991A Installment Sale Payment Year and terminating with the 1991A Installment Sale Payment Year ending on July 1, 2023.

“Bond or Contract or Other Parity Reserve Fund” means any debt service reserve fund established to secure the payment of Bond Payments or Installment Sale Payments or Other Parity Obligation Payments.

“Bond Payments” means the principal and interest payments scheduled to be paid by the District on Bonds.

“Bonds” means all revenue bonds of the District authorized, executed, issued and delivered by the District under and pursuant to applicable law, the interest and principal and redemption premium, if any, payments under and pursuant to which are payable from Net Water and Sewer Revenues on a parity with all other Parity Obligations.

“Business Days” means any day other than a Saturday, Sunday or legal holiday in the State of California.

“Capital Appreciation Bonds” means any Bonds described as such when issued and as to which interest is payable only at the maturity or prior redemption of such Bonds.

“Capital Appreciation Certificates” means any certificates of participation in Installment Sale Payments described as such when issued and as to which interest is payable only at the maturity or prior redemption of such Certificates.

“Capital Appreciation Parity Obligations” means Parity Obligations described as such when issued and as to which interest is payable only at the maturity or prior redemption of such Parity Obligations, except Capital Appreciation Bonds and Capital Appreciation Certificates.

“Certificates” means the 1991A Certificates, the 1997A Certificates and the 2001A Certificates.

“Certificate Payment Date” means, with respect to any Certificate, the Certificate Payment Date designated therein, which is the July 1 on which, or in the case of Certificates subject to mandatory sinking fund prepayment by which, the principal installment evidenced and represented thereby shall become due and payable.

“Certificate Year” means with respect to the Certificates, the period beginning on the Delivery Date and ending on any date during the one-year period beginning on the delivery date, selected by the District in the Tax Certificate, and each successive twelve month (or shorter) period thereafter until there are no longer any obligations represented by the Certificates outstanding.

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations issued thereunder.

“Completion Parity Obligations” means any Long-Term Parity Obligations or Interim Parity Obligations incurred or issued by the District for the purpose of financing the completion of a Project for which Long-Term Parity Obligations or Interim Parity Obligations have already been issued or incurred.

“Contracts” means Installment Sale Agreements, Leases and Contracts of Indebtedness.

“Contracts of Indebtedness” means contracts of indebtedness or similar obligations of the District authorized and executed by the District under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Net Water and Sewer Revenues on a parity with all other Parity Obligations.

“Convertible Parity Obligations” means Parity Obligations which by their terms permit the District or another designated party on one or more occasions to elect or modify the period for which the rate of interest thereon is fixed.

“Cost of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Corporation or the District and related to the authorization, execution and delivery of the 1991A Installment Sale Agreement and the 1991A Trust Agreement and the related sale of the Certificates, or to the authorization, execution and delivery of amendments of or supplements to the 1991A Installment Sale Agreement and the 1991A Trust Agreement and the related sale of the 1997A Certificates and the 2001A Certificates, including, but not limited to, cost of preparation and reproduction of documents, costs of rating agencies and costs to provide information required by rating agencies, filing fees, initial fees and charges of the Trustee, fees and charges of the Corporation, legal fees and charges, fees and expenses of consultants and professionals, fees and expenses of the financial advisor, fees and charges for preparation, execution and safe keeping of the Certificates or any other charge, cost or fee in connection with the original sale, execution and delivery of the Certificates.

“Credit Enhanced Parity Obligations” means Parity Obligations the principal of and interest on which are secured by the proceeds of an irrevocable letter of credit, surety bond, insurance policy or other credit facility or arrangement with a person whom the District is obligated to reimburse for advances made for amounts due on such Credit Enhanced Parity Obligations.

“Current Water and Sewer Revenues” means all gross income and revenue received or receivable by the District from the ownership or operation of the Water and Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all rates, fees, charges (including connection fees and charges and standby or water availability charges) and business interruption insurance proceeds received by the District for the Water and Sewer Service and the other services of the Water and Sewer System and all other income and revenue howsoever derived by the District from the ownership or operation of the Water and Sewer System or arising from the Water and Sewer System, and also including (1) all income from the deposit or investment of any money in the Water and Sewer Revenue Fund, the General Reserve Fund and the Rate Stabilization Fund, (2) all income from the deposit or investment of money held in the Installment Sale Payment Fund, the Subordinate Obligation Payment Fund or any Bond or Contract or Other Parity Reserve Fund or other fund (including, without limitation, a construction or acquisition fund) established pursuant to a Trust Agreement to the extent such income is required to be available to pay Bond Payments or Installment Sale Payments or Other Parity Obligation Payments or is required to be deposited in the Water and Sewer Revenue Fund, and (3) benefit assessments and any proceeds of taxes to the extent the proceeds of such assessments or taxes may be legally pledged to the payment of Parity Obligations, but excluding any proceeds of taxes and any refundable deposits made to establish credit and advances or contributions in aid of construction.

“Debt Service” means, for any Fiscal Year or other period, the sum of (1) the interest accruing during such Fiscal Year or period 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, (2) that portion of the principal amounts of all Outstanding serial Bonds maturing on the next succeeding principal payment date that would have accrued during such Fiscal Year or period if such principal amounts were deemed to accrue daily in equal amounts from the next preceding principal payment date or during the year preceding the first principal payment date, as the case may be, (3) that portion of the principal amount of all Outstanding term Bonds required to be redeemed or paid on the next succeeding redemption date (together with the redemption premiums, if any, thereon) that would have accrued during such Fiscal Year or period if such principal amount (and redemption premiums) were deemed to accrue daily in equal amounts from the next preceding redemption date or during the year preceding the first redemption date, as the case may be, (4) that portion of the Installment Sale Payments required to be made at the times provided in Contracts that would have accrued during such Fiscal Year or period if such Installment Sale Payments were deemed to accrue daily in equal amount from, in each case, the next preceding Installment Sale Payment Date of interest or principal, as the case may be, and (5) that portion of the Other Parity Obligation Payments required to be made at the times provided in the Other Parity Obligations that would have accrued during such Fiscal Year or period if such Other Parity Obligation Payments were deemed to accrue daily in equal amount from the next preceding Other Parity Obligation Payment Date or, with respect to the principal portion thereof, during the year preceding the first principal payment date, as the case may be; provided, that (1) if any of such Bonds are Capital Appreciation Bonds or Deferred Income Bonds, or if the Installment Sale Payments due under any such Contracts are evidenced by Capital Appreciation Certificates or Deferred Income Certificates, or if any Other Parity Obligation Payments due under any such Other Parity Obligations constitute Capital Appreciation Parity Obligations or Deferred Income Parity Obligations, then the principal and interest portion of the Accreted Value of all such Capital Appreciation Parity Obligations and the Appreciated Value of all such Deferred Income Obligations becoming due at maturity or on a scheduled redemption date shall be included in the calculations of Debt Service made under this definition only from and after the date (the “Calculation Date”) which is one year (or such lesser period if so provided in the instrument authorizing such Obligation) prior to the date on which such Accreted Value or Appreciated Value becomes so due, and the principal and interest portions of such Accreted Value or Appreciated Value shall be deemed to accrue in equal daily installments from the Calculation Date to such date, and (2) that the principal amount of Option Parity Obligations tendered for payment and not remarketed before the stated maturity thereof shall be deemed to accrue on the date required to be paid pursuant to such tender in the manner and only to the extent required by the instrument authorizing such Option Parity Obligations; and provided further, that “Debt Service” shall not include (1) payments due on general obligation bonds for which ad valorem property taxes have been levied and pledged and other general obligation debts for which ad valorem taxes are then being levied and collected

or (2) interest on Bonds or Contracts or Other Parity Obligations which are to be paid from amounts constituting capitalized interest held pursuant to a Trust Agreement.

“Debt Service Reserve Fund Requirement” means, as of any date of calculation, an amount equal to the least of \$9,999,500, or one hundred percent (100%) of Maximum Annual 1991A Installment Sale Payments or one hundred twenty-five percent (125%) of Average Annual 1991A Installment Sale Payments.

“Debt Service Coverage Ratio” means for the period in question the ratio of Net Water and Sewer Revenues to the Maximum Annual Debt Service; provided, however, that for purposes of calculating such ratio:

(a) principal and interest requirements on Long-Term Parity Obligations, or portions thereof, shall not be included in the computation of the Maximum Annual Debt Service (i) for any period to the extent such principal or interest, or portions thereof, is payable from amounts (including investment earnings thereon, if any) deposited in trust with a bank or other financial institution for the payment thereof (including without limitations capitalized interest and accrued interest so deposited into trust, escrowed or otherwise set aside) or (ii) for any period occurring after the date on which the Long-Term Parity Obligations are to be redeemed from monies (including investment earnings thereon, if any) which are (1) irrevocably deposited in trust with a bank or other financial institution for such purpose, (2) invested in Defeasance Securities pending their application to such purpose and (3) verified by an independent certified public accountant as sufficient for such purpose, provided that notice of such redemption shall have been given or arrangement shall have been made therefor, or waiver of such notice shall have been received by the District;

(b) any Long-Term Parity Obligations having a single principal maturity and no sinking fund redemption requirements, or having a principal amount due in any Fiscal Year which exceeds an amount equal to 200% of the maximum principal amount of such Long-Term Parity Obligations that would have become due (whether at maturity or pursuant to sinking fund redemption requirements) in such Fiscal Year if such Parity Obligations Outstanding on the date of calculation had been amortized on a level debt service basis from the date of calculation over the stated term of such Parity Obligations, shall be deemed to bear interest at the Assumed Interest Rate and determined in accordance with paragraph (c) of the definition of Assumed Interest Rate and shall be deemed to be amortized on a level debt service basis over a period of time equal to the Assumed Amortization Period;

(c) the interest on any Variable Rate Parity Obligations shall be calculated in accordance with the definition of Assumed Interest Rate;

(d) the annual principal and interest payment on Long-Term Parity Obligations arising from any Guaranty shall be taken into account as follows:

(i) if at any time within the three full Fiscal Years immediately preceding the computation date, the obligee of the guaranteed obligation shall have demanded that the District pay principal of or interest on the guaranteed obligation and if, within thirty (30) calendar days of the District’s receipt of such demand, the District shall have failed to obtain an Opinion of Counsel to the effect that the District is not legally obligated to honor such demand, then 100% of the annual principal and interest payment scheduled to become due on the guaranteed obligations; or

(ii) otherwise, twenty percent (20%) of the annual principal and interest payments scheduled to become due on the guaranteed obligations;

(e) principal and interest on Option Parity Obligations Certificates shall be determined in accordance with paragraph (h) under the caption “Summary of Certain Provisions of the Master Resolution — Additional Bonds and Contracts and Other Parity Obligations”;

(f) principal and interest on Convertible Parity Obligations shall be determined in accordance with paragraph (i) under the caption “Summary of Certain Provisions of the Master Resolution — Additional Bonds and Contracts and Other Parity Obligations”; and

(g) principal and interest on Credit Enhanced Parity Obligations shall be determined in accordance with paragraph (j) under the caption “Summary of Certain Provisions of the Master Resolution—Additional Bonds and Contracts and Other Parity Obligations”.

“Defeasance Securities” means and includes, if and to the extent the same are permitted by law, only such securities as are described in clauses (i), (ii) and (iii) below which shall not be subject to redemption prior to their maturity other than at the option of the holder thereof, or as to which an irrevocable notice of redemption of such securities on a specified redemption date has been given and such securities are not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, as follows:

(i) any bonds or other obligations which as to principal and interest constitute direct non-callable obligations of, or are unconditionally guaranteed as to the timely payment of principal and interest by, the United States of America, including obligations of any of the Federal agencies to the extent unconditionally guaranteed as to the timely payment of principal and interest by the United States of America;

(ii) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) hereof, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate, and (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (i) hereof which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (ii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate; provided, however, any such bonds or obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any state as described above shall be rated “AAA” by S&P and/or “Aaa” by Moody’s; and

(iii) certificates that evidence ownership of the right to payments of principal or interest on obligations described in clause (i), but only if the same constitute Refcorp interest strips, CATS, TGRS and STRPS (as such terms are used in the municipal bond industry).

“Deferred Income Bonds” means any Bonds as to which accruing interest is not paid prior to the Interest Commencement Date specified in the instrument authorizing such Bonds.



“Deferred Income Certificates” means any certificates of participation in Installment Sale Payments as to which accruing interest is not paid prior to the Interest Commencement Date.

“Deferred Income Parity Obligations” means Parity Obligations as to which accruing interest is not paid prior to the Interest Commencement Date specified in the instrument authorizing such Parity Obligations, except Deferred Income Bonds and Deferred Income Certificates.

“Delivery Date” means the date of the delivery of the Certificates to the initial purchaser thereof.

“Dissemination Agent” means, initially, U.S. Trust Company, National Association, acting in its capacity as Dissemination Agent under the 1991A Trust Agreement, or any successor Dissemination Agent designated in writing by the District which has filed with the then current Dissemination Agent a written acceptance of such designation.

“Escrow Bank” means U.S. Trust Company, National Association, acting in its capacity as escrow bank pursuant to the Second 1991A Escrow Agreement.

“Experienced Banker or Advisor” means a reputable investment banker experienced in underwriting obligations of the type which is the subject of an opinion rendered in accordance with a provision of this Master Resolution, or a reputable financial advisor experienced in advising issuers in connection with such issuers’ issuance of obligations of the type which is the subject of an opinion rendered in accordance with a provision of this Master Resolution.

“First Amendment to the 1991 A Installment Sale Agreement” means that certain First Amendment to the 1991A Installment Sale Agreement executed and entered into as of April 1, 1997, by and between the Corporation and the District.

“First Supplement to the 1991A Trust Agreement” means that certain First Supplement to the 1991A Trust Agreement executed and entered into as of April 1, 1997, by and among the Trustee, the Corporation and the District.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other annual accounting period selected and designated by the Board of Directors of the District as the Fiscal Year of the District.

“GAAP” means generally accepted accounting principles applicable to the District, as in effect from time to time.

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

“Guaranty” means a loan commitment or other obligation of the District, which loan commitment or other obligation guarantees in any manner, whether directly or indirectly, any obligation of any other person and which obligation of the District is payable from Net Water and Sewer Revenues on a parity with all other Parity Obligations; provided that “Guaranty” shall not include Maintenance and Operation Obligations.

“Installment Sale Payment Date” means any date on which Bond Payments or Installment Sale Payments are scheduled to be paid by the District under and pursuant to any Contract or Bonds.

“Installment Sale Payments” means Contract Payments, Installment Sale Payments or Lease Payments.

“Installment Sale Agreements” means installment sale agreements or similar obligations of the District authorized and executed by the District under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Net Water and Sewer Revenues on a parity with all other Parity Obligations.

“Installment Sale Payments” means the installment sale or other periodic payments scheduled to be paid by the District under and pursuant to Installment Sale Agreements.

“Insurance Policy” means the municipal bond new issue insurance policy issued by the Insurer that guarantees payment of principal and interest evidenced and represented by the Certificates.

“Insurer” means, in the context of the Insurance Policy and the Certificates other than the 1997A Certificates or the 2001A Certificates, Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto, or, in the context of the 1997A Insurance Policy and the 1997A Certificates, the 1997A Insurer or, in the context of the 2001A Insurance Policy and the 2001A Certificates, the 2001A Insurer.

“Interest Commencement Date” means, with respect to any particular Deferred Income Bonds or Deferred Income Certificates or other Deferred Income Parity Obligations, the date specified in the instrument authorizing such Bonds or Certificates or other Deferred Income Parity Obligations (which date must be prior to the maturity date for such Bonds or Certificates or other Deferred Income Parity Obligations) after which interest accruing on such Bonds or Certificates or other Deferred Income Parity Obligations shall be payable with the first such payment date being the applicable interest payment date immediately succeeding such Interest Commencement Date.

“Interest Payment Date” means a date on which interest installments evidenced and represented by the 2001A Certificates becomes due and payable, being January 1 and July 1 of each year to which reference is made, commencing on July 1, 2001.

“Interim Parity Obligations” means Parity Obligations incurred or assumed in anticipation of being refinanced or refunded with Long-Term Parity Obligations.

“Law” means the Municipal Water District Law of the State of California, being Division 20 of the Water Code of California, as amended, and any laws amendatory thereof or supplemental thereto.

“Lease Payments” means the rental payments scheduled to be paid by the District under and pursuant to Leases.

“Leases” means capital leases or similar obligations of the District authorized and executed by the District under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Net Water and Sewer Revenues on a parity with the payment of an other Parity Obligations.

“Liquidity Backer” means any bank or other financial institution whose long term indebtedness is rated AA or better by Standard & Poor’s Corporation or whose long term indebtedness is rated Aa or better by Moody’s Investors Service, Inc., such ratings to be determined without regard to “+” or “-”.

“Long-Term,” when used in connection with Parity Obligations, shall mean Parity Obligations having an original maturity greater than one year or renewable at the option of the District for a period greater than one year from the date of original incurrence or issuance thereof, which shall not include the current portion of such Long-Term Parity Obligations as determined in accordance with Generally Accepted Accounting Principles.

“Maintenance and Operation Costs” means all payments in respect of Maintenance and Operation Obligations plus all costs paid or incurred by the District for maintaining and operating the Water and Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water purchased or leased by the District, and including all expenses of management and repair and other expenses necessary to maintain and preserve the Water and Sewer System in good repair and working order, and including all administrative costs of the District, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other costs of the District or charges required to be paid by it to comply with the terms of the Master Resolution or of any resolution authorizing the execution of any Parity Obligations, such as compensation, reimbursement and indemnification of the trustee, seller, lender or lessor for any such Parity Obligations, and fees and expenses of independent certified public accountant: but excluding in all cases (1) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles, premiums and discounts, (2) interest expense and (3) amounts paid from other than Water and Sewer Revenues (including, but not limited to, amounts paid from the proceeds of ad valorem property taxes).

“Maintenance and Operation Obligation” means any contract or lease for the purchase of any facilities, properties, structures, or works, or any loan of credit to or guaranty of debt, claims or liabilities of any other person for the purpose of obtaining any facilities, properties, structures or works, the final payments under which are due more than five years following the effective date thereof, so long as in each case the payments thereunder are to constitute Maintenance and Operation Costs.

“Master Resolution” means the Resolution of the Board of Directors of the Eastern Municipal Water District Providing for the Allocation of Water and Sewer System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water and Sewer Revenues, adopted by the Board of Directors of the District on March 20, 1991, as amended by the First Supplemental Master Resolution adopted by the Board of Directors of the District on May 13, 1993, as it may be from time to time further modified, amended or supplemented.

“Maximum Annual Debt Service” means the greatest total Debt Service on Long-Term Parity Obligations (computed in accordance with clauses (a) through (g) of the definition of Debt Service Coverage Ratio) due in any Fiscal Year during the period commencing with the Fiscal Year in which such computation is made and terminating (except as otherwise provided in paragraph (e) under the caption “Summary of Certain Provisions of the Master Resolution—Additional Bonds and Contracts and Other Parity Obligations”) with the Fiscal Year in which payments are due under the last Outstanding Bond or the last Outstanding Contract or the last Outstanding Other Parity Obligation, whichever is later.

“Maximum Annual 1991A Installment Sale Payments” means the greatest total 1991A Installment Sale Payments payable in any 1991A Installment Sale Payment Year during the period commencing with the then current 1991A Installment Sale Payment Year and terminating with the 1991A Installment Sale Payment Year ending on July 1, 2023.

“Monthly Accrued Debt Service” means, with respect to any month, an amount equal to the sum of Debt Service with respect to all Bonds and Contracts and Other Parity Obligations accrued and to accrue to the end of such month.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency designated by the District by written notice to the Trustee and with the prior written consent of the Insurer so long as the payment of principal and interest with respect to any Certificates is guaranteed by the Insurer under the Insurance Policy and the Insurer is not in default under the Insurance Policy.

“MSRB” means the Municipal Securities Rulemaking Board established in accordance with the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934.

“Net Water and Sewer Revenues” means, for any Fiscal Year or other period, the Water and Sewer Revenues during such Fiscal Year or period less the Maintenance and Operations Costs during such Fiscal Year or period.

“1988 Project” means the acquisition of land for administrative facilities and satellite facilities, the construction of administrative facilities, the construction of improvements to the Perris Sewer Treatment Plant and the equipment and furnishings for said facilities to be acquired, constructed and installed with the proceeds of the 1988 Certificates, all as contemplated in the 1988 Sublease.

“1988 Sublease” means that certain Sublease and Option to Purchase, dated as of November 1, 1988, by and between the District and the Corporation.

“1989 Project” means the lease to the Corporation and the leaseback to the District of land for use as a disposal site for the Sunnymead Regional Water Reclamation Facility, the lease to the Corporation of the Rancho California Regional Water Reclamation Facility and the construction and installation of improvements at the Sunnymead Regional Water Reclamation Facility and the leaseback to the District of the Rancho Facility as improved and the lease to the Corporation of the Rancho California Regional Water Reclamation Facility, the construction and installation of improvements at the Rancho Facility and the leaseback of the Rancho Facility as improved and the construction and installation of improvements at the Sunnymead Facility, including equipment and furnishings for said Facilities to be acquired, constructed and installed with the proceeds of the 1989 Certificates, all as contemplated in the 1989 Sublease.

“1989 Sublease” means that certain Sublease and Option to Purchase, dated as of November 1, 1989, by and between the District and the Corporation.

“1991A Certificates” means the ninety-nine million, nine hundred ninety-five thousand dollars (\$99,995,000) “Water and Sewer Revenue Refunding Certificates of Participation, Series 1991A, Evidencing and Representing Interests of the Owners Thereof in Installment Sale Payments To Be Made by the Eastern Municipal Water District under the 1991A Installment Sale Agreement” that are executed and delivered by the Trustee under and pursuant to the 1991A Trust Agreement and are outstanding thereunder.

“1991A Installment Sale Agreement” means the 1991A Installment Sale Agreement as defined in the front portion of this Official Statement.

“1991A Installment Sale Payment Dates” means any date on which 1991A Installment Sale Payments are scheduled to be paid by the District under and pursuant to the 1991A Installment Sale Agreement.

“1991A Installment Sale Payment Year” means the twelve month period ending July 1 of each year.

“1991A Installment Sale Payments” means the Installment Sale Payment scheduled to be paid by the District under and pursuant to the 1991A Installment Sale Agreement.

“1991A Project” means all of the Corporation’s right, title and interest in and to the 1988 Leased Premises, the 1988 Project, the 1989 Leased Premises and the 1989 Project.

“1991A Trust Agreement” means that certain Trust Agreement, dated as of June 1, 1991, by and among the District, the Corporation and the 1991A Trustee.

“1991A Trustee” means U.S. Trust Company, National Association or any other bank or trust company which may at any time be substituted in its place as provided in the 1991A Trust Agreement.

“1997A Certificates” means the twenty-one million, eight hundred thirty-five thousand dollars (\$21,835,000) “Water and Sewer Revenue Refunding Certificates of Participation, Series 1997A, Evidencing and Representing Interests of the Owners thereof in 1991A Installment Sale Payments To Be Made by the Eastern Municipal Water District under the 1991A Installment Sale Agreement” authorized and at any time Outstanding under the 1991A Trust Agreement that are executed and delivered by the Trustee under and pursuant to the 1991A Trust Agreement.

“1997A Holder” means any registered owner of any 1997A Certificate and any actual purchaser of a 1997A Certificate during any period in which the 1997A Certificates are in book-entry only form and any beneficial owner of any 1997A Certificate within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934.

“1997A Insurance Policy” means the municipal bond new issue insurance policy issued by the 1997A Insurer that guarantees payment of principal and interest evidence and represented by the 1997A Certificates.

“1997A Insurer” means MBIA Insurance Corporation, or any successor thereto.

“Obligation” means, without duplication, (a) all obligations of the District for borrowed money or which have been incurred or assumed in connection with the acquisition of any portion of the Water and Sewer System; (b) the liability of the District under any lease or other agreement which is properly capitalized on the balance sheet of the District in accordance with Generally Accepted Accounting Principles; and (c) any Guaranty.

“Opinion of Counsel” means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, retained by the District and reasonably acceptable to the Trustee.

“Option Bonds” means Bonds which by their terms may be or are required to be tendered by and at the option of the holder thereof for payment or purchase by the District or a third party prior to the stated maturity thereof.

“Option Certificates” means any certificates of participation in Installment Sale Payments which by their terms may be or are required to be tendered by or at the option of the holder thereof for payment or purchase by the District or a third party prior to the stated maturity thereof.

“Option Parity Obligations” means any Parity Obligations which by their terms may be or are required to be tendered by and at the option of the holder or owner thereof for payment or purchase by the District or a third party prior to the stated maturity thereof, including without limitation Option Bonds and Option Certificates.

“Other Parity Obligations” means all Parity Obligations except Bonds, Contracts and Reimbursement Agreements.

“Other Parity Obligation Payments” means the periodic payments scheduled to be paid by the District under and pursuant to Other Parity Obligations.

“Other Parity Obligation Payment Date” means any date on which Other Parity Obligation Payments are scheduled to be paid by the District under and pursuant to any Other Parity Obligation.

“Outstanding” means, with respect to any Parity Obligations, those Parity Obligations which are not deemed paid in accordance with their terms and, when used as of any particular time with reference to Certificates, means any Certificates except —

- (a) Certificates cancelled by the Trustee or surrendered to the Trustee for cancellation;

(b) Certificates paid or deemed to have been paid under the Trust Agreement; and

(c) Certificates in lieu of and in substitution for which other Certificates shall have been executed and delivered by the Trustee under the Trust Agreement.

“Owner” means the registered owner of any Certificate.

“Parity Obligation Payments” means the periodic payments scheduled to be made by the District under and pursuant to Parity Obligations.

“Parity Obligations” means all Obligations, the payments of which are payable from Net Water and Sewer Revenues on a parity with all other Parity Obligations, including without limitation Bonds, Contracts, Guaranties and Reimbursement Agreements.

“Permitted Investments” means any of the following to the extent then permitted by law:

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the Federal agencies set forth in clause (iii) below to the extent unconditionally guaranteed by the United States of America, including obligations issued pursuant to paragraph 21B(d)(3) of the Federal Home Loan Bank Act, as amended by paragraph 511(a) of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, or any successor provisions to paragraph 21(B) of the Federal Home Loan Bank Act, as so amended;

(ii) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) hereof which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate, and (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (i) hereof which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (ii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate;

(iii) bonds, debentures, or other evidences of indebtedness issued or guaranteed by any agency or corporation which has been or may be created pursuant to an Act of Congress as an agency or instrumentality of the United States of America;

(iv) direct and general obligations of any state of the United States of America, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase such obligations are rated in one of the two highest rating categories (without regard to “+”s or “-”s) by Moody’s and S&P;

(v) obligations of any state of the United States of America (other than the State) or any political subdivision of any state of the United States of America or any agency or instrumentality of any such state or political subdivision which at the time of their purchase shall be rated in the highest rating category (without regard to “+”s or “-”s) by Moody’s and by S&P;

(vi) direct and general obligations of the State of California to the payment of the principal of and interest on which the full faith and credit of the State of California are pledged, or any bonds or other obligations of the State of California which as to principal and interest are unconditionally guaranteed by the State of California, which, in each case, at the time of their purchase shall be rated in one of the two highest rating categories (without regard to “+”s or “-”s) by Moody’s and by S&P;

(vii) certificates or other instruments that evidence ownership of the right to payments of principal of or interest on obligations of any state of the United States of America or any political subdivision thereof or any agency or instrumentality of any state or political subdivision, provided that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a successor Trustee under the Trust Agreement, and provided further that the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to a credit support arrangement provided by, one or more financial institutions or insurance companies or associations which shall be rated in the highest rating category (without regard to “+”s or “-”s) by Moody’s and S&P, or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy shall result in such municipal bonds being rated in the highest rating category (without regard to “+”s or “-”s) by Moody’s and S&P;

(viii) certificates that evidence ownership of the right to payments of principal or interest on obligations described in clause (i), provided that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a successor Trustee under the Trust Agreement;

(ix) certificates of deposit, whether negotiable or non-negotiable, and banker’s acceptances of the 50 largest banks in the United States or commercial paper issued by the parent holding company of any such bank which at the time of investment has an outstanding unsecured, uninsured and unguaranteed debt issue ranked in either of the two highest rating categories (without regard to “+”s or “-”s) by Moody’s and S&P (including the Trustee and its parent holding company, if any, if it otherwise qualifies);

(x) commercial paper, other than that issued by bank holding companies, rated at the date of investment in the highest short term rating category (without regard to “+”s or “-”s) by Moody’s and by S&P;

(xi) shares of an Investment Company, organized under the Investment Company Act of 1940 as amended, which invests in assets exclusively in obligations of the type described in clauses (i), (iii) or (v);

(xii) repurchase agreements collateralized by any one or more of the securities described in clauses (i) and (iii) with any registered broker/dealer subject to the Securities Investors’ Protection Corporation jurisdiction and recognized as a primary dealer by the Federal Reserve Bank of New York if such broker/dealer or bank or the holding company or other controlling corporation of such broker/dealer or bank has at the time of their purchase

an uninsured, unsecured and unguaranteed obligation rated "Prime 1" or "A3" by Moody's and "A-1" or "A-" or better by S&P, provided:

(1) a master repurchase agreement or specific written repurchase agreement governs the transaction; and

(2) the securities are held by the Trustee or an independent third party acting solely as agent for the Trustee free and clear of any lien, and such third party is (a) a Federal Reserve Bank, (b) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$25 million, or (c) and the Trustee shall have received written confirmation from such third party that it holds such securities, free of any lien, as agent for the Trustee; and

(3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Trustee; and

(4) the repurchase agreement has a term of thirty (30) days or less, or the Trustee will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and

(5) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 104% (105% if the securities are issued by either the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation) and, if the value of securities held as collateral slips below said required percentage, additional cash and/or collateral must be transferred to the Trustee or to the Trustee's agent; and

(xiii) guaranteed investment contracts entered into with an entity the debt securities of which, or, if the obligations of such entity under the guaranteed investment contract are guaranteed by a guarantor, the debt securities of such guarantor, are rated in one of the two highest long-term rating categories (without regard to "+"s or "-"s) by Moody's and S&P.

"Prepaid 2001A Installment Sale Payments" means the 1991A Installment Sale Payments due on July 1 in the years 2001 through 2020.

"Principal Payment Date" means a date on which principal installments evidenced and represented by the Certificates becomes due and payable, being July 1 of each year to which reference is made.

"Project" means a specified list of any additions, betterment, extensions or improvements to the Water and Sewer System.

"Purchase Price" means the principal amount plus the interest thereon owed by the District to the Corporation under the conditions and terms of the 1991A Installment Sale Agreement for the purchase of the 1991A Project and the incidental cash and expenses related thereto paid by the Corporation.

"Refunding Parity Obligations" means any Parity Obligations issued for the purpose of refunding Outstanding Parity Obligations.



“Reimbursement Agreement” means an agreement between the District and a bank or other financial institution providing for the issuance of a letter of credit, reserve fund insurance policy, guaranty or surety bond for the purpose of making Bond Payments or Installment Sale Payments or Other Parity Obligation Payments and requiring the District to make payments to reimburse or compensate such bank or financial institution for draws under such instruments from Net Water and Sewer Revenues on a parity with all Other Parity Obligations.

“Reimbursement Payments” means amounts payable by the District as compensation or reimbursement for draws or the right to make draws or to have draws made on a letter of credit, reserve fund insurance policy, guaranty or surety bond for the purpose of making Bond Payments or Installment Sale Payments or Other Parity Obligation Payments in accordance with any Reimbursement Agreement.

“Repository” shall mean any nationally recognized municipal securities information repository within the meaning of Rule 15c2-12.

“Rule 15c2-12” means Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, together with all interpretive guidances or other official interpretations and explanations thereof that are promulgated by the United States Securities and Exchange Commission.

“S&P” means Standard & Poor’s Rating Services, a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “S&P” will be deemed to refer to any other nationally recognized securities rating agency designated by the District by written notice to the Trustee and with the prior written consent of the Insurer so long as the payment of principal and interest with respect to any Certificates is guaranteed by the Insurer under the Insurance Policy and the Insurer is not in default under the Insurance Policy.

“Second Amendment to the 1991A Installment Sale Agreement” means that certain Second Amendment to the 1991A Installment Sale Agreement executed and entered into as of April 1, 2001, by and between the Corporation and the District.

“Second 1991A Escrow Agreement” means the Escrow Agreement, dated as of April 1, 2001, by and among the District, the Corporation and the Escrow Bank, and any duly authorized and executed amendment thereto.

“Second Supplement to the 1991A Trust Agreement” means that certain Second Supplement to the 1991A Trust Agreement executed and entered into as of April 1, 2001, by and between the Trustee, the Corporation and the District.

“Short-Term,” when used in connection with Parity Obligations, means Parity Obligations having an original maturity less than or equal to one year and not renewable at the option of the District for a term greater than one year beyond the date of original incurrence or issuance.

“State Information Depository” means any applicable State of California information depository within the meaning of Rule 15c2-12.

“Subordinate Obligation Payments” means the payments scheduled to be paid by the District under and pursuant to Subordinate Obligations.

“Subordinate Obligations” means obligations of the District authorized and executed by the District under applicable law, the payments under and pursuant to which are payable from Net Water and Sewer Revenues, from the Subordinate Obligation Payment Fund, subject and subordinate to Parity Obligation Payments.

“Trust Agreement” means any resolution, indenture or trust agreement providing for the issuance of Bonds or certificates of participation or any Other Parity Obligation.

“2001A Certificates” means the sixty-eight million seven hundred thirty-five thousand dollars (\$68,735,000) “Water and Sewer Revenue Refunding Certificates of Participation, Series 2001A, Evidencing and Representing Interests of the Owners thereof in 1991A Installment Sale Payments To Be Made by the Eastern Municipal Water District under the 1991A Installment Sale Agreement” authorized by the 1991A Trust Agreement and at any time Outstanding thereunder that are executed and delivered by the Trustee under and pursuant to the 1991A Trust Agreement.

“2001A Holder” means any registered owner of any 2001A Certificate and any actual purchaser of a 2001A Certificate during any period in which the 2001A Certificates are in book-entry only form and any beneficial owner of any 2001A Certificate within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934.

“2001A Installment Sale Payment Year” means the twelve-month period ending on July 1 of each year.

“2001A Insurance Policy” means the municipal bond new issue insurance policy issued by the 2001A Insurer that guarantees payment of principal and interest evidenced and represented by the 2001A Certificates.

“2001A Insurer” means Financial Guaranty Insurance Company, or any successor thereto.

“Valuation Date” means, with respect to any Capital Appreciation Bond, Capital Appreciation Certificate, Deferred Income Bond or Deferred Income Certificate, any date on which the value of such Bond or Certificate is to be determined in accordance with the instrument authorizing such Bond or Certificate.

“Variable Rate Parity Obligations” means any portion of Parity Obligations the rate of interest on which is not established at the time of incurrence as one or more numerical rates applicable throughout the term thereof or for specified periods during the term thereof, with the result that at the time of incurrence the numerical rate of interest which will be in effect during any portion of the term thereof cannot be determined.

“Water and Sewer Revenues” means the Current Water and Sewer Revenues plus deposits to the Water and Sewer Revenue Fund from amounts on deposit in the Rate Stabilization Fund less amounts transferred from the Water and Sewer Revenue Fund to the Rate Stabilization Fund.

“Water and Sewer Service” means the water and sewer service furnished, made available or provided by the Water and Sewer System.

“Water and Sewer System” means: (i) all property rights, contractual rights and facilities of the District relating to water, including all facilities for the treatment, conservation, storage, transmission and distribution of water now owned by the District and all other properties, structures or works for the treatment, conservation, storage, transmission and distribution of water and the generation and delivery of hydroelectric power in connection therewith acquired and constructed by or for the District and determined by the District to be a part of the Water and Sewer System; and (ii) all property rights, contractual rights and facilities of the District relating to wastewater, including all facilities for the transporting, treating, neutralizing, stabilizing or disposing of wastewater now owned by the District and all other properties, structures or works for the transporting, treating, neutralizing, stabilizing or disposing of wastewater acquired and constructed by or for the District and determined by the District to be a part of the Water and Sewer System; together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof acquired and constructed.

**B. SUMMARY OF CERTAIN PROVISIONS OF  
THE MASTER RESOLUTION**

*The following is a summary of certain provisions of the Master Resolution. This summary does not purport to be complete or definitive and it is qualified in its entirety by reference to provisions of the Master Resolution.*

Establishment of Funds

The District establishes and agrees to maintain, so long as any Parity Obligations or Subordinate Obligations remain outstanding, a Rate Stabilization Fund, a Water and Sewer Revenue Fund, an Operating Fund, an Installment Sale Payment Fund, an Operating Reserve Fund, a Subordinate Obligation Payment Fund and a General Reserve Fund. Each of these funds will be held by the Director of Finance of the District. Amounts in such funds shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Master Resolution and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the District. The District will only have such beneficial right or interest in such money as is provided in the Master Resolution.

Deposits and Withdrawals from Rate Stabilization Fund

From time to time the District may deposit in the Rate Stabilization Fund from Current Water and Sewer Revenues such amount as the District shall determine. All amounts transferred by the District from the Rate Stabilization Fund to the Water and Sewer Revenue Fund shall be used by the District solely to pay Maintenance and Operation Costs. All interest or other earnings upon deposit in the Rate Stabilization Fund shall be withdrawn therefrom and accounted for as Current Water and Sewer Revenues.

Use of Other Funds

The District may withdraw amounts from the Installment Sale Payment Fund solely for the purpose of paying Parity Obligation Payments at the times and in the amounts required by applicable Parity Obligations.

The District may withdraw amounts from the Subordinate Obligation Payment Fund solely for the purpose of paying payments to be made under or pursuant to Subordinate Obligations at the times and in the amounts required by applicable Subordinate Obligations or resolutions, trust agreements or indentures securing such Subordinate Obligations.

The District may withdraw money in the General Reserve Fund for any lawful purpose of the District, except to make transfers to the Rate Stabilization Fund.

The District may withdraw amounts from the Operating Fund for the purpose of paying all reasonable and necessary Maintenance and Operation Costs.

The District may withdraw amounts from the Operating Reserve Fund for the purpose of paying all reasonable and necessary Maintenance and Operation Costs to the extent sufficient funds are not otherwise available within the Operating Fund for such purposes. If at any time the amount on deposit in the Operating Reserve Fund is in excess of 1/4 of the Maintenance and Operation Costs as set forth in the then current annual budget of the District, the District may transfer such excess to the General Reserve Fund.

Additional Bonds and Contracts and Other Parity Obligations

The District may at any time incur or issue Parity Obligations, including without limitation any Bonds the Bond Payments under and pursuant to which, or execute any Contract the Installment Sale Payments under and pursuant to which, or incur any Other Parity Obligations the Other Parity Obligation Payments under and

pursuant to which, as the case may be, are payable from the Net Water and Sewer Revenues on a parity with the 1991A Installment Sale Agreement and all Other Parity Obligations; provided:

(a) The District shall file a Certificate of the District with each Trustee to the effect that the District is not then in default under any Trust Agreement or with respect to any Parity Obligation.

(b) Such Bond or Contract or Other Parity Obligation shall not allow the declaration of Bond Payments or Installment Sale Payments or Other Parity Obligation Payments thereunder to be immediately due and payable in the event of a default by the District thereunder or under the applicable Trust Agreement or other agreement unless such remedy is then allowed with respect to all Parity Obligations then Outstanding.

Notwithstanding the foregoing provisions, there shall be no limitations on the ability of the District to execute Reimbursement Agreements.

(c) Long-Term Parity Obligations may be incurred provided that one of the following tests is satisfied:

1. the Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which the financial statements of the District has been reported upon by an independent certified public accountant, taking into account (i) all Outstanding Long-Term Parity Obligations then Outstanding, (ii) the Long-Term Parity Obligations then proposed to be incurred, and (iii) all decreases (but not increases), if any, for Water and Sewer Service approved or then in effect as of such date of calculation, is not less than 1.10, and a Certificate of the District so certifying and setting forth in sufficient detail the computation thereof is filed with the trustee under each Trust Agreement along with the financial statements and report of accountants thereon if they are not already on file with such trustee; or

2. (A) the Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which the financial statements of the District has been reported upon by an independent certified public accountant, (i) taking in to account all Outstanding Long-Term Parity Obligations then Outstanding, (ii) but not taking into account the Long-Term Parity Obligations then proposed to be incurred and (iii) taking into account both the completion of all uncompleted Projects, if any, and the costs, if any, of financing such completion, and (iv) taking into account all increases and decreases, if any, for Water and Sewer Service approved or then in effect as of such date of calculation, is not less than 1.15, and a Certificate of the District so certifying and setting forth in sufficient detail the computation thereof is filed with the trustee under each Trust Agreement along with the financial statements and report of accountants thereon if they are not already on file with such trustee; and

(B) taking into account the matters listed in clauses (i), (iii) and (iv) of paragraph (A) above, plus the then proposed Long-Term Parity Obligations, the Debt Service Coverage Ratio for the first full Fiscal Year of the District following the completion of the Project, if any, being paid for with the proceeds of such proposed Long-Term Parity Obligations, or following the incurrence of Long-Term Parity Obligations for refunding purposes, is expected to be not less than 1.15.

(d) Completion Parity Obligations may be incurred without satisfying any of the tests described in the Master Resolution.

(e) Refunding Parity Obligations may be incurred provided that the report or opinions set forth in paragraph (c) above shall be delivered unless, at the time of issuance of such Refunding Parity Obligations and after giving effect thereto and to the application of the proceeds thereof, Maximum Annual Debt Service, for each subsequent Fiscal Year up to and including the Fiscal Year in which the Long-Term Parity Obligations to be refunded were originally scheduled to be Outstanding, would not be increased by more than 5%; provided, however, that if the Long-Term Parity Obligations to be refunded do not cease to be Outstanding upon, or substantially contemporaneously with the incurrence of such Refunding Parity Obligations, such Refunding Parity Obligations may be incurred pursuant to this paragraph (e) only if the proceeds (including investment earnings, thereon, if any) of the Refunding Parity Obligations are (1) irrevocably deposited in trust with an escrow agent, (2) invested in Defeasance Obligations pending their application to such purpose, and (3) verified by an independent certified public account as sufficient for such purpose; provided that notice of such redemption shall have been given or arrangements shall have been made therefor, or waiver of such notice shall have been received by the District.

(f) Short-Term Parity Obligations may be incurred provided that (1) the Outstanding principal amount of Short-Term Parity Obligations incurred pursuant to this subsection does not exceed fifteen percent (15%) of the Net Water and Sewer Revenues, and (2) for a period of twenty (20) consecutive days during each Fiscal Year any Short-Term Parity Obligations shall be reduced to an aggregate Outstanding principal amount not exceeding five percent (5%) of the Net Water and Sewer Revenues for the most recent Fiscal Year, provided that Parity Obligations initially incurred pursuant to this subsection shall be deemed incurred pursuant to paragraph (c) above (and shall no longer be deemed incurred pursuant to this paragraph) on the day following that on which a Certificate of the District shall be delivered to each Trustee pursuant to paragraph (c) above, which Certificate shall include such Parity Obligations.

(g) Interim Parity Obligations may be incurred provided that, at the time such Interim Parity Obligations are incurred or assumed, there shall be delivered to each Trustee:

(i) a Certificate of the District and an opinion of an Experienced Banker or Advisor selected by the District stating that the anticipated financing thereof by the issuance of Long-Term Parity Obligations is reasonably expected to be completed within the next sixty (60) months;

(ii) reports or opinions of the type required by either part (1) of paragraph (c) above or part (2) of paragraph (c) above demonstrating that all requirements of either part (1) of paragraph (c) above or part (2) of paragraph (c) above would be met if such Interim Parity Obligations were then being issued as Long-Term Parity Obligations maturing over a term equal to the Assumed Amortization Period with level annual combined payments of principal and interest and having an interest rate equal to the Assumed Interest Rate; and

(iii) either (x) evidence that such Interim Parity Obligations are secured by an irrevocable extension of credit of, or an agreement to purchase such Interim Parity Obligations from the owner thereof by, a person or (y) a written statement of an Experienced Banker or Advisor setting forth the opinion of such Experienced Banker or Advisor (which opinion shall be based upon the best estimates and recent experience of such Experienced Banker or Advisor under the then-prevailing market conditions but shall not in any event be deemed to constitute an offer to purchase any such Long-Term Parity Obligations or otherwise to create or give rise to any liability or obligation on the part of said Experienced Banker or Advisor with respect thereto) to the effect that long-term parity obligations of similar credit quality maturing over the term and bearing interest at the rate referred to in the foregoing paragraph (ii) would, if then being offered, be marketable on reasonable and customary terms.

Except to the extent expressly required by paragraphs (e) or (g) above, the reports or opinions set forth in part (2) of paragraph (c) above need not be delivered in connection with the incurrence or assumption of Parity Obligations pursuant to the provisions of paragraphs (d) or (f) above.

(h) In measuring compliance with the applicable tests under the Master Resolution for incurring Option Parity Obligations and generally for purposes of determining the Debt Service Coverage Ratio: (i) Debt Service on Option Bonds or Options Certificates or other Option Parity Obligations shall not include amounts payable upon exercise by the registered owner thereof of the option to tender such Parity Obligations for payment to the extent and for so long as a Liquidity Backer is required to provide the moneys necessary for such payment, (ii) Debt Service on Option Bonds or Option Certificates or other Option Parity Obligations shall be deemed to include any periodic fees payable to the Liquidity Backer as a condition of the Liquidity Backer standing ready to provide the moneys necessary for such payment, and (iii) debt service on Option Bonds or Option Certificates or other Option Parity Obligations shall not be based upon the terms of any reimbursement obligation to the Liquidity Backer except to the extent and for periods during which payments have been required to be made pursuant to such reimbursement obligation due to the Liquidity Backer advancing funds and not being reimbursed.

(i) Convertible Parity Obligations may be incurred if at the time of incurrence all applicable provisions of the Master Resolution are complied with for the type of Parity Obligations the Convertible Parity Obligations will be upon its incurrence; provided, however, that the District has no current intention or expectation that the conversion option of such Parity Obligations will be exercised at any particular future time but rather the conversion option has been included to provide flexibility in reacting to future circumstances, and this conversion option has not been included for the purpose of avoiding any limit or restriction in the Master Resolution on the incurrence of Parity Obligations of a type into which such Convertible Parity Obligations may by its terms be converted, and a Certificate of the District and a written statement of an Experienced Banker or Advisor selected by the District so stating is filed with the trustee under each Trust Agreement. If such a Certificate of the District is not filed with the trustee under each Trust Agreement, such Convertible Parity Obligations may be incurred only upon compliance with the provisions applicable to the form of Parity Obligations such Convertible Parity Obligations will be upon incurrence or into which it may be converted, whichever would have the highest debt service (determined in accordance with the definition of Debt Service Coverage Ratio) for any one-year period.

(j) In determining compliance with the applicable provisions of the Master Resolution for the incurrence of Credit Enhanced Parity Obligations, the District which is also undertaking any contingent repayment obligation to a person who has undertaken to provide moneys necessary for payment to registered owners of such Credit Enhanced Parity Obligations (the "Credit Enhancers") shall not also be deemed to be incurring separate Parity Obligations to the Credit Enhancer.

In measuring compliance with the applicable tests under the Master Resolution for incurring Credit Enhanced Parity Obligations, and generally for purposes of determining the Debt Service Coverage Ratio, Debt Service on Credit Enhanced Parity Obligations shall be deemed to include any periodic payment payable to the Credit Enhancer as a condition of the Credit Enhancer standing ready to provide moneys necessary for payment to the registered owners of such Credit Enhanced Parity Obligations, and Debt Service on Credit Enhanced Parity Obligations shall not be based upon the terms of any reimbursement obligation to the Credit Enhancer except to the extent and for periods during which payments have been required to be made pursuant to such reimbursement obligation due to the Credit Enhancer advancing funds and not being reimbursed.

#### Other Obligations

(a) Amounts to be paid by the District with respect to any Maintenance and Operation Obligation shall constitute Maintenance and Operation Costs only if at the time such Obligation is

entered into the District shall deliver to the trustee under each Trust Agreement a Certificate of the District to the effect that (i) the making of payments on such Obligation as Maintenance and Operation Costs will not impair the District's ability to comply with its rate covenant (see, "Security and Sources of Payment - Rate Covenant" in the front portion of the Official Statement) during the next five Fiscal Years or five Fiscal Years beyond the commercial operation date of the Project being financed with such Obligation, whichever is later, and (ii) the properties, services or commodities to be furnished pursuant to such Obligation can be economically and beneficially utilized by the District. If the amounts to be paid by the District for a Maintenance and Operation Obligation do not constitute Maintenance and Operation Costs, then such amounts shall be paid out of the Subordinate Obligation Payment Fund or the General Reserve Fund unless, at the time such Obligation is initially incurred, the District demonstrates compliance with the tests described above under "Additional Bonds and Contracts and Other Parity Obligations," in which event such amounts may be paid from the Installment Sale Payment Fund.

(b) Subordinated Obligations may be incurred without meeting any of the tests described above under "Additional Bonds and Contracts and Other Parity Obligations."

#### Additional Covenants of the District

Against Encumbrances. The District will pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished, or alleged to have been furnished, to or for the District in, upon, about or relating to the Water and Sewer System and will keep the Water and Sewer System free of any and all liens against any portion of the Water and Sewer System. In the event any such lien attaches to or is filed against any portion of the Water and Sewer System, the District will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the District desires to contest any such lien it may do so. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the District will forthwith pay or cause to be paid and discharged such judgment.

Against Sale or Other Disposition of Property. The District will not sell, lease or otherwise dispose of the Water and Sewer System or any part thereof essential to the proper operation of the Water and Sewer System or to the maintenance of the Net Water and Sewer Revenues, and will not enter into any agreement or lease which would impair the operation of the Water and Sewer System or any part thereof necessary to secure adequate Net Water and Sewer Revenues for the payment of Parity Obligation Payments or Subordinate Obligation Payments, or which would otherwise impair the rights of the holders of Bonds or Certificates or Other Parity Obligations with respect to the Net Water and Sewer Revenues or the operation of the Water and Sewer System; provided, that any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Water and Sewer System, or any material or equipment which has become worn out, may be sold if such sale will not reduce the Net Water and Sewer Revenues below the requirements of the District's rate covenant.

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

Not later than the first Business Day of each Fiscal Year, the District will adopt and, if requested, make available to each Trustee, a budget approved by the Board of Directors of the District setting forth the estimated Maintenance and Operation Costs, the estimated payments for Debt Service, the estimated Reimbursement Payments and the estimated debt service payments on all Subordinate Obligations for the then current Fiscal Year; provided, that any such budget may be amended at any time during any Fiscal Year and, if requested, such amended budget shall be made available to each Trustee.

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 and Sewer System and all other contracts affecting or involving the Water and Sewer System to the extent that the District is a party thereto.

No Superior Liens. The District will not create or allow any lien or payment from the Net Water and Sewer Revenues or any part thereof prior or superior to the obligation to make the Parity Obligation Payments as provided in the Master Resolution or which might impair the security of any Parity Obligation.

Insurance. The District will procure and maintain such insurance relating to the Water and Sewer System which it shall deem advisable or necessary (based on the annual written report and approval of an independent insurance consultant) to protect its interests, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with facilities, properties, structures and works similar to the Water and Sewer System; provided, the District shall not be required to procure or maintain any such insurance unless such insurance is commercially available at reasonable cost; provided further, that any 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 the facilities, properties, structures and works similar to the Water and Sewer System.

#### Accounting Records and Financial Statements

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

(b) The District will prepare and file with each Trustee annually within one hundred and eighty (180) days after the close of each Fiscal Year (commencing with the Fiscal year ending June 30, 1991):

1. financial statements of the District for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, certified by the independent certified public accountant who examined such financial statements stating that nothing came to his attention in connection with such examination that caused him to believe that the District was not in compliance with any of the agreements or covenants contained in the Master Resolution; and

2. a detailed report as to all insurance policies maintained and self-insurance programs maintained by the District with respect to the Water and Sewer System as of the close of such Fiscal year, including the names of the insurers which have issued the policies, the amounts thereof and the property or risks covered thereby and a copy of the current annual report of the District's independent insurance consultant.

(c) The District will prepare annually not more than one hundred twenty (120) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 1991) a summary report showing in reasonable detail the result of the operations of the District for such Fiscal Year and containing a general statement of the physical condition of the facility, properties, structures or works of the District and the insurance therein being maintained. The District will furnish a copy of such summary report to each Trustee.

Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Water and Sewer System or any part thereof when the same shall become due. The District will duly observe and conform with all valid regulations and requirement of any governmental authority relative to the operation



of the Water and Sewer 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.

Collection of Rates, Fees and Charges. The District will charge and collect or cause to be collected the rates, fees and charges applicable to the Water and Sewer Service and will not permit any part of the Water and Sewer System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State of California and any, city, county, district, political subdivision, public corporation or agency of any thereof); provided, that the District may without charge use the Water and Sewer Service.

Eminent Domain and Insurance Proceeds. If all or any part of the Water and Sewer System shall be taken by eminent domain proceedings, or if the District receives any insurance proceeds resulting from a casualty loss to the Water and Sewer System, the proceeds thereof shall be used to substitute other components for the condemned or destroyed components of the Water and Sewer System or applied to the cancellation of Parity Obligations.

### **C. SUMMARY OF CERTAIN PROVISIONS OF THE 1991A TRUST AGREEMENT**

*The following is a summary of certain provisions of the 1991A Trust Agreement as amended and supplemented by the First Supplement to the 1991A Trust Agreement and the Second Supplement to the 1991A Trust Agreement (collectively, the "1991A Trust Agreement"). This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the 1991A Trust Agreement.*

#### The Trustee

U.S. Trust Company, National Association, Los Angeles, California, has been appointed by the District and the Corporation as Trustee. The Trustee will receive all of the 1991A Installment Sale Payments for disbursement in conformity with the 1991A Trust Agreement. In addition, the Trustee will act as Certificate registrar.

#### Equal Security

In consideration of the acceptance of the Certificates by the Owners, the 1991A Trust Agreement shall be deemed to be and shall constitute a contract between the Trustee and the Owners to secure the full and final payment of the interest and principal and prepayment premiums, if any, evidenced and represented by the Certificates, subject to the agreements, conditions, covenants and terms contained therein; and all agreements, conditions, covenants and terms contained therein required to be observed or performed by or on behalf of the Trustee shall be for the equal and proportionate benefit, protection and security of all Owners without distinction, preference or priority as to benefit, protection or security of any Certificates over any other Certificates by reason of the number or date thereof or the time of execution or delivery thereof or otherwise for any cause whatsoever, except as expressly provided in the 1991A Trust Agreement or in the Certificates.

#### Provisions Relating to the 2001A Insurance Policy.

(a) If, on the third day preceding any Interest Payment Date for the Certificates there is not on deposit with the Trustee sufficient moneys available to pay all principal of and interest on the Certificates due on such date, the Trustee shall immediately notify the 2001A Insurer and State Street Bank and Trust Company, N.A., New York, New York or its successor as its Fiscal Agent (the "Fiscal Agent") of the amount of such deficiency. If, by said Interest Payment Date, the District has not provided the amount of such deficiency, the Trustee shall simultaneously make available to the 2001A

Insurer and to the Fiscal Agent the registration books for the Certificates maintained by the Trustee. In addition:

(i) The Trustee shall provide the 2001A Insurer with a list of the Owners entitled to receive principal or interest payments from the 2001A Insurer under the terms of the Insurance Policy and shall make arrangements for the 2001A Insurer and its Fiscal Agent (1) to mail checks or drafts to Owners entitled to receive full or partial interest payments from the 2001A Insurer and (2) to pay principal of the Certificates surrendered to the Fiscal Agent by the Owners entitled to receive full or partial principal payments from the 2001A Insurer; and

(ii) The Trustee shall, at the time it makes the registration books available to the 2001A Insurer pursuant to (i) above, notify Owners entitled to receive the payment of principal of or interest on the Certificates from the 2001A Insurer (1) as to the fact of such entitlement, (2) that the 2001A Insurer will remit to them all or part of the interest payments coming due subject to the terms of the Insurance Policy, (3) that, except as provided in paragraph (b) below, in the event that any Owner is entitled to receive full payment of principal from the 2001A Insurer, such Owner must tender his Certificate with the instrument of transfer in the form provided on the Certificate executed in the name of the 2001A Insurer, and (4) that, except as provided in paragraph (b) below, in the event that such Owner is entitled to receive partial payment of principal from the 2001A Insurer, such Owner must tender his Certificate for payment first to the Trustee, which shall note on such Certificate the portion of principal paid by the Trustee, and then, with an acceptable form of assignment executed in the name of the 2001A Insurer, to the Fiscal Agent, which will then pay the unpaid portion of principal to the Owner subject to the terms of the Insurance Policy.

(b) In the event that the Trustee has notice that any payment of principal of or interest on a Certificate has been recovered from a Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time it provides notice to the 2001A Insurer, notify all Owners that in the event that any Owner's payment is so recovered, such Owner will be entitled to payment from the 2001A Insurer to the extent of such recovery, and the Trustee shall furnish to the 2001A Insurer its records evidencing the payments of principal of and interest on the Certificates which have been made by the Trustee and subsequently recovered from Owners, and the dates on which such payments were made.

(c) The 2001A Insurer shall, to the extent it makes payments of principal of or interest on the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy and, to evidence such subrogation, (A) in the case of subrogation as to claims for past due interest, the Trustee shall note the 2001A Insurer's rights as subrogee on the registration books maintained by the Trustee upon receipt from the 2001A Insurer of proof of the payment of interest thereon to the Owners of such Certificates and (B) in the case of subrogation as to claims for past due principal, the Trustee shall note the 2001A Insurer's rights as subrogee on the registration books for the Certificates maintained by the Trustee upon receipt of proof of the payment of principal thereof to the Owners of such Certificates. Notwithstanding anything in this 1991A Trust Agreement or the Certificates to the contrary, the Trustee shall make payment of such past due interest and past due principal directly to the 2001A Insurer to the extent that the 2001A Insurer is a subrogee with respect thereto.

#### INSTALLMENT SALE PAYMENTS

Assignment of Installment Sale Payments. The Corporation, for good and valuable consideration, will unconditionally grant, transfer and assign to the Trustee without recourse all of its rights to receive the 1991A

Installment Sale Payments for the benefit of the Owners of the Certificates and any and all of the other rights, title and interest of the Corporation in the 1991A Installment Sale Agreement, except the rights of the Corporation in indemnification from the District and its rights to receive payment of its fees, expenses and reimbursements, for the purpose of securing: (a) the payment of all sums due and owing to the Owners of the Certificates under the terms of the 1991A Trust Agreement; and (b) the observance, performance and discharge of each agreement, condition, covenant and term of the District contained in the 1991A Trust Agreement and in the 1991A Installment Sale Agreement.

All 1991A Installment Sale Payments shall be paid directly by the District to the Trustee, and all 1991A Installment Sale Payments received by the Trustee shall be held in trust by the Trustee for the benefit of the District until deposited in the funds, whereupon such money shall be held in trust in such funds by the Trustee for the benefit of the Owners. The District pledges and grants a lien on and a security interest to the Trustee in such moneys paid to the Trustee for the benefit of the Owners.

Deposit of 1991A Installment Sale Payments. The Trustee shall deposit the 1991A Installment Sale Payments paid to it at the following respective times in the following respective funds in the manner hereinafter provided, each of which funds the Trustee has agreed to establish and maintain so long as any Certificates are Outstanding, and the money in each of such funds shall be disbursed only for authorized purposes and uses; provided, that any money in such funds not required to pay the principal and interest and prepayment premiums, if any, evidenced and represented by the Certificates shall on the Business Day immediately following each Interest Payment Date be deposited first in the Debt Service Reserve Fund, to the extent money is needed therein for the balance therein to equal the Debt Service Reserve Fund Requirement, and second, if the District so directs, in the Excess Investment Earnings Fund, and third, after the above deposits are completed, shall be transferred to the District for deposit by the District in the Water and Sewer Revenue Fund held under the Master Resolution:

(a) Debt Service Fund. The Trustee, on or prior to each Interest Payment Date, shall deposit in the Debt Service Fund that amount of money representing the portion of the 1991A Installment Sale Payments constituting the interest installment becoming due and payable on such Interest Payment Date. The Trustee, on or prior to each Certificate Payment Date, shall deposit in the Debt Service Fund that amount of money representing the portion of the 1991A Installment Sale Payments constituting the principal installment becoming due and payable on such Certificate Payment Date. All money in the Debt Service Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest evidenced and represented by the Certificates on their respective Interest Payment Dates and paying the principal evidenced and represented by the Certificates on their respective Certificate Payment Dates or on mandatory prepayment prior thereto.

(b) Prepayment Fund. The Trustee, at the time that any prepayment is paid to the Trustee pursuant to the 1991A Installment Sale Agreement, shall deposit in the Prepayment Fund the amount of such prepayment. All money in the Prepayment Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest and principal and prepayment premiums, if any, evidenced and represented by the Certificates to be prepaid on their respective prepayment dates.

## COVENANTS

Compliance with 1991A Trust Agreement. The Trustee will not execute or deliver any Certificates in any manner other than in accordance with the provisions of the 1991A Trust Agreement; and neither the Corporation nor the District will suffer or permit any default by them to occur thereunder, but each will faithfully observe and perform all the agreements, conditions, covenants and terms contained therein required to be observed and performed by them.

Compliance with and Amendment of or Supplement to the 1991A Installment Sale Agreement and the Master Resolution. The Corporation and the District will faithfully observe and perform all the agreements,

conditions, covenants and terms contained in the 1991A Installment Sale Agreement required to be observed and performed by them, and will enforce the 1991A Installment Sale Agreement against the other party thereto in accordance with its terms.

The Corporation and the District may amend or supplement the 1991A Installment Sale Agreement with the prior written consent of the Trustee, which consent shall be given only if, in the opinion of the Trustee (which opinion may be based upon an Opinion of Counsel or a Certificate of the District), such amendment or supplement is not materially adverse to the interests of the Owners, including, but not limited to, amendments or supplements (i) to add to the agreements and covenants of either party other agreements and covenants to be observed, or to surrender any right or power therein reserved to the District, or (ii) to cure, correct or supplement any ambiguous or defective provision contained therein, or (iii) to provide for the acceleration of the 1991A Installment Sale Payments as contemplated by the Master Resolution, or (iv) to resolve questions arising thereunder as the parties thereto may deem necessary or desirable and which do not materially adversely effect the interests of the Owners of the Certificates, or (v) to revise the 1991A Installment Sale Payments Schedule attached thereto as Exhibit A in connection with the execution and delivery of the 1997A Certificates and/or the 2001A Certificates, as the case may be, provided that the 1997A Certificates and/or the 2001A Certificates, as the case may be satisfy the criteria for incurring Refunding Parity Obligations set forth in the Master Resolution; provided, that the Trustee may consent to any amendment of or a supplement to the 1991A Installment Sale Agreement if it first obtains the written consent of the Owners of at least a majority in aggregate principal amount of the Certificates then Outstanding to such amendment or supplement, except that no such amendment or supplement shall reduce the principal or interest component of any 1991A Installment Sale Payment without the written consent of the Owner of each Certificate evidencing and representing an interest therein. The District will give notice of any such amendment to each rating agency then rating the Certificates.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Master Resolution required to be observed and performed by the District.

The District may modify, amend or supplement the Master Resolution with the prior written consent of the Trustee, which consent shall be given only if, in the opinion of the Trustee (which opinion may be based upon an Opinion of Counsel or a Certificate of the District), such amendment or supplement is not materially adverse to the interests of the Owners, including, but not limited to, modifications, amendments or supplements (i) to add to the agreements and covenants of the District other agreements and covenants to be observed, or to surrender any right or power therein reserved to the District, or (ii) to cure, correct or supplement any ambiguous or defective provision contained therein, or (iii) to provide for the acceleration of the Installment Sale Payments evidenced by the Certificates as contemplated by the Master Resolution, or (iv) to resolve questions arising thereunder as the District may deem necessary or desirable, and which do not materially adversely affect the interests of the Owners of the Certificates; provided, that the Trustee may consent to any modification or amendment of or supplement to the Master Resolution if it first obtains the written consent of the Owners of at least a majority in aggregate principal amount of the certificates then Outstanding to such modification, amendment of supplement.

Tax Covenants. Notwithstanding any other provision of the 1991A Trust Agreement, absent an opinion of Special Counsel that the exclusion from gross income of the interest component of the 1991A Installment Sale Payments will not be adversely affected for federal income tax purposes, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

- (a) Private Activity. The District will not take or omit to take any action or make any use of the proceeds of the Certificates or of any other monies or property which would cause the obligation represented by the Certificates to be a "private activity bond" within the meaning of Section 141 of the Code;

(b) Arbitrage. The District will make no use of the proceeds of the Certificates or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the obligation represented by the Certificates to be an “arbitrage bond” within the meaning of Section 148 of the Code;

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

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

(e) Miscellaneous. The District will take no action inconsistent with its expectations stated in the Tax Certificate and will comply with the covenants and requirements stated therein.

Prosecution and Defense of Suits. The District will defend against every action, suit or other proceeding at any time brought against the Trustee, the Corporation or any Owner upon any claim arising out of the receipt, deposit or disbursement of any of the 1991A Installment Sale Payments or involving any rights or obligations of the Trustee; provided, that the Trustee, the Corporation or any Owner at its or his election may appear in and defend any such action, suit or other proceeding. The District will indemnify and hold harmless the Trustee, the Corporation and the Owners against any and all liability claimed or asserted by any person arising out of any such receipt, deposit or disbursement, and will indemnify and hold harmless the Owners against any attorneys’ fees or other expenses which any of them may incur in connection with any litigation or otherwise in connection with the foregoing to which any of them may become a party in order to enforce their rights under the 1991A Trust Agreement or under the Certificates; provided, with respect to such attorneys’ fees and other expenses suffered by the Owners that such litigation shall be concluded favorably to such Owners’ contentions therein.

Accounting Records and Statements. The Trustee shall keep proper books of record and account in accordance with trust accounting standards. Such records shall be open to inspection by the District and by any Owner at any reasonable time during regular business hours on reasonable notice. Not later than the fifteenth (15th) day of each month, for so long as any Certificates are Outstanding, the Trustee will furnish to the Corporation and to the District and to any Owner of at least \$1,000,000 in aggregate principal amount of the Certificates who may so reasonably request (at the expense of such Owner) a complete statement covering the receipts, deposits and disbursements of the funds held under the 1991A Trust Agreement for the preceding month.

#### DEFAULT AND LIMITATIONS OF LIABILITY

Action on Default. An event of default under the 1991A Installment Sale Agreement shall constitute a default under the 1991A Trust Agreement, and in each and every such case during the continuance of such event of default the Trustee, upon being provided with satisfactory indemnity, or the Owners of not less than a majority in aggregate principal amount evidenced and represented by the Certificates at the time Outstanding shall be entitled, upon notice in writing to the District and to the Corporation to exercise the remedies provided to the Corporation in the 1991A Installment Sale Agreement; provided, the nothing contained in the 1991A Trust Agreement shall affect or impair the right of action of any Owner to institute suit directly against the District to enforce payment of the obligation evidenced and represented by such Owner’s Certificate; provided, further, that any payments made by the Insurer under the Insurance Policy shall not be deemed payments with respect to the Certificates for purposes of determining whether an Event of Default has occurred.

Other Remedies of the Trustee. The Trustee shall have the right –

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Corporation or the District or any director, officer or employee of the District, and to compel the Corporation or the District or any such director, officer or employee of the District to observe or perform its or his duties under applicable law and the agreements, conditions, covenants and terms contained in the 1991A Trust Agreement required to be observed or performed by it or him;

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

(c) by suit in equity upon the happening of any default under the 1991A Trust Agreement to require the Corporation and the District and the directors, officers and employees of the District to account as the trustee of an express trust.

Non-Waiver. A waiver of any default or breach of any obligation by the Trustee shall not affect any subsequent default or any subsequent breach of an obligation or impair any rights or remedies on any such subsequent default or on any such subsequent breach of an obligation. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default shall impair any such right or remedy or shall be construed to be a waiver of any such default or an acquiescence therein, and every right or remedy conferred upon the Trustee by applicable 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 or the Corporation or the District, then the Trustee, the Corporation 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. Nothing contained in the 1991A Trust Agreement or in the Certificates shall affect or impair the obligation of the District under the 1991A Installment Sale Agreement to pay the 1991A Installment Sale Payments when due as provided in the 1991A Installment Sale Agreement.

Application of Funds. All moneys received by the Trustee pursuant to any right given or action taken under the remedy provisions of the 1991A Trust Agreement or the 1991A Installment Sale Agreement shall be deposited in a segregated account and shall be applied by the Trustee, upon presentation of the several Certificates -

First, Costs and Expenses: to the payment of the costs and expenses of the Trustee (including the fees and expenses of its agents and counsel) and, after payment in full to the Trustee, of the Owners in declaring such Event of Default, including reasonable compensation to its or their agents, accountants and counsel;

Second, Interest: to the payment to the persons entitled thereto of all payments of interest evidenced and represented by the Certificates then due in the order of maturity of such payments, together with accrued and unpaid interest on Certificates theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any payment or payments of interest becoming due on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Third, Principal: to the payment to the persons entitled thereto of the unpaid principal evidenced and represented by any Certificates which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal evidenced and represented by the Certificates to be paid at a rate equal to the rate or rates of interest then applicable to the Certificates if paid in accordance with their terms, and, if the amount available shall not be sufficient to pay in full all the amounts due with respect to the Certificates on any date, together with such interest, then to the payment thereof

ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

No Liability by the Corporation to the Owners. The Corporation shall not have any obligation or liability to the Owners with respect to the payment when due of the 1991A Installment Sale Payments by the District, or with respect to the observance or performance by the District of the other agreements, conditions, covenants and terms contained in the 1991A Installment Sale Agreement or 1991A Trust Agreement, or with respect to the performance by the Trustee of any obligation contained in the 1991A Trust Agreement required to be performed by it.

No Liability by the District to the Owners. Except for the payment when due of the 1991A Installment Sale Payments and the observance and performance of the other agreements, conditions, covenants and terms contained in the 1991A Installment Sale Agreement or 1991A Trust Agreement, the District shall not have any obligation or liability to the Owners with respect to the 1991A Trust Agreement or the preparation, execution, delivery, transfer, exchange or cancellation of the Certificates or the receipt, deposit or disbursement of the 1991A Installment Sale Payments by the Trustee, or with respect to the performance by the Trustee of any obligation contained in the 1991A Trust Agreement required to be performed by it.

No Liability by the Trustee to the Owners. Except as expressly provided in the 1991A Trust Agreement the Trustee shall not have any obligation or liability to the Owners with respect to the payment when due of the 1991A Installment Sale Payments by the District, or with respect to the observance or performance by the District of the other agreements, conditions, covenants and terms contained in the 1991A Installment Sale Agreement or in the 1991A Trust Agreement.

#### AMENDMENT OF OR SUPPLEMENT TO THE TRUST AGREEMENT

Amendment or Supplement to the 1991A Trust Agreement. The 1991A Trust Agreement and the rights and obligations of the Corporation and the District and Owners and the Trustee thereunder may be amended or supplemented at any time by an amendment or supplement which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding are filed with the Trustee. No such amendment or supplement shall (1) reduce the rate of interest evidenced and represented by any Certificate or extend the time of payment thereof or reduce the amount of principal or prepayment premium, if any, evidenced and represented by any Certificate or extend the Certificate Payment Date thereof or otherwise alter or impair the obligation of the District to pay the interest and principal and prepayment premium, if any, evidenced and represented thereby at the time and place and at the rate and in the currency and from the fund provided therein without the prior written consent of the Owner of the Certificate so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of amendments or supplements of the 1991A Trust Agreement or for the execution of amendments or supplements to the 1991A Installment Sale Agreement or the Master Resolution, or (3) modify any of the rights or obligations of the Trustee without its prior written consent thereto.

The 1991A Trust Agreement and the rights and obligations of the Corporation and the District and the Owners and the Trustee thereunder may also be amended or supplemented at any time by an amendment or supplement to the 1991A Trust Agreement which shall become binding upon execution without the written consents of any Owners, but only to the extent permitted by law and after receipt of any approving Opinion of Counsel and only if, in the opinion of the Trustee (which opinion may be based upon an Opinion of Counsel or a Certificate of the District), such amendment or supplement is not materially adverse to the interests of the Owners, including, but not limited to, amendments or supplements:

- (a) to add to the agreements, conditions, covenants and terms contained therein required to be observed or performed by the Corporation or the District other agreements, conditions, covenants and terms thereafter to be observed or performed by the Corporation or the District, or to

surrender any right reserved therein to or conferred therein on the Corporation or the District, and which in either case shall not adversely affect the interests of the Owners;

(b) to modify, amend or supplement the 1991A Trust Agreement in such manner as to preserve the exemption of the Certificates from the registration requirements of the Securities Act of 1933 or any similar federal statute in effect or to permit the qualification of the 1991A Trust Agreement under the Trust Indenture Act of 1939 or any similar federal statute in effect;

(c) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained therein or in regard to questions arising thereunder which the Corporation or the District may deem desirable or necessary, and which shall not adversely affect the interests of the Owners;

(d) to provide for the acceleration of the Certificates and the 1991A Installment Sale Payments represented thereby as contemplated by the Master Resolution;

(e) to modify, amend or supplement the 1991A Trust Agreement to implement applicable provisions required by the Insurer in the event that the District elects to deposit an insurance policy, a surety bond or a guaranty into the Debt Service Reserve Fund pursuant to the 1991A Trust Agreement; or

(f) to make any modifications or changes necessary or appropriate in the Opinion of Counsel to preserve or protect the exclusion from gross income for federal income tax purposes of interest evidenced and represented by the Certificates.

In determining whether any such amendment or supplement is not materially adverse to the interests of the Owners, the Trustee shall make its determination assuming that no Insurance Policy guarantees the payment of the principal and interest with respect to Certificates affected by any such amendment or supplement, unless any such amendment or supplement affects the rights and obligations of the Insurer or the Insurance Policy.

The Corporation and the District shall, unless otherwise waived by the Insurer, give written notice of any amendment to the Trust Agreement and the rights and obligations of the Corporation and the District and the Owners and the Trustee to Moody's and S&P not less than fifteen (15) days prior to the execution thereof.

## DEFEASANCE

### Discharge of Certificates and 1991A Trust Agreement

(a) If the Trustee shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Certificates the interest and principal and prepayment premiums, if any, evidenced and represented thereby at the times and in the manner provided therein and in the 1991A Trust Agreement, then all agreements and covenants of the Corporation and the District to such Owners under the 1991A Trust Agreements shall thereupon cease, terminate and become void and shall be completely discharged and satisfied.

(b) Any Outstanding Certificates shall on their Certificate Payment Dates or their dates of prepayment prior thereto be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) above if there shall be on deposit with the Trustee money held in trust for the benefit of the Owners of such Certificates which is sufficient to pay the interest and principal and prepayment premiums, if any, evidenced and represented by such Certificates payable on and prior to their Certificate Payment Dates or their dates of prepayment prior thereto.



(c) Any Outstanding Certificates shall prior to their Certificate Payment Dates or their date of prepayment prior thereto be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) above if (1) in case any of such Certificates are to be prepaid on any date prior to their Certificate Payment Dates, the District shall have given to the Trustee in form satisfactory to it irrevocable instructions to give notice by mail to the Owners of such Certificates of the prepayment of such Certificates on such prepayment dates, (2) there shall have been deposited with the Trustee either money in an amount which shall be sufficient, or Defeasance Securities, the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee, shall be sufficient (as evidenced by a report of an independent certified public accountant regarding such sufficiency) to pay when due the interest evidenced and represented by such Certificates on and prior to their Certificate Payment Dates or their dates of prepayment prior thereto, as the case may be, and the principal and prepayment premiums, if any, evidenced and represented by such Certificates, (3) in the event such Certificates are not by their terms subject to prepayment within the next succeeding sixty (60) days, the District shall have given the Trustee in form satisfactory to it irrevocable instructions to give notice by mail to the Owners of such Certificates that the deposit required by clause (2) above has been made with the Trustee and that such Certificates are deemed to have been paid in accordance with the provisions described in the 1991A Trust Agreement and stating their Certificate Payment Dates or their dates of prepayment prior thereto upon which money is to be available for the payment of the interest and principal and prepayment premiums, if any, evidenced and represented by such Certificates, and (4) an Opinion of Counsel is filed with the Trustee to the effect that the action taken pursuant to the provisions described in the 1991A Trust Agreement will not cause the interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes.

Deposits and Investments. Any money held by the Trustee in any of the funds provided in the 1991A Trust Agreement, other than the Construction Fund, shall be deposited in time or demand deposits in any state or nationally chartered bank or trust company, including the Trustee, or a state or nationally chartered savings and loan association, and shall be secured at all times by such obligations as are required by law and to the fullest extent required by law; provided that any such money may be invested as directed by the District in Permitted Investments which will, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement.

Any interest or profits on such deposits and investments received by the Trustee shall, as and when received, be deposited first, if the District so directs, in the Excess Investment Earnings Fund, and second, after the above deposit is completed, shall be deposited in the Debt Service Reserve Fund so long as the balance therein is less than the Debt Service Reserve Fund Requirement and third, shall be transferred to the District for deposit in the Water and Sewer Revenue Fund held under the Master Resolution provided that earnings on the Construction Fund shall be deposited in such fund except as otherwise provided in the 1991A Trust Agreement; and for the purpose of determining the balance in the Debt Service Reserve Fund all investments in the Debt Service Reserve Fund shall be valued on July 1 of each year at the face value thereof if such investments mature within twelve (12) months from the date of valuation or if such investments are pursuant to a guaranteed investment contract, or if such investments mature more than twelve (12) months after the date of valuation and are not pursuant to a guaranteed investment contract, at the price at which such investments are redeemable by the holder at its option, if so redeemable, or if not so redeemable, at the lesser of (i) the cost of such investments plus the amortization of any premium or minus the amortization of any discount, or (ii) the market value of such investments.

All deposits of 1991A Installment Sale Payments made by the District with the Trustee prior to each Interest Payment Date or Certificate Payment Date pursuant to the 1991A Installment Sale Agreement shall be invested by the Trustee in Permitted Investments specified by the District and maturing not later than such Interest Payment Date or Certificate Payment Date, as the case may be, and the Trustee shall first deposit in the Debt Service Reserve Fund, to the extent money is needed therein for the balance therein to equal the Debt Service Reserve Fund Requirement, and second pay to the District, all earnings on such investment.

Any money held by the District in the Construction Fund shall be deposited in time or demand deposits in any state or nationally chartered bank or trust company, including the Trustee, or a state or nationally chartered savings and loan association, and shall be secured at all times by such obligation as are required by law and to the fullest extent required by law; provided, that any such money may be invested as determined by the District pursuant to a request of the District in Permitted Investments which will, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement; and, provided further, that not more than \$12,000,000 of the amount from time to time on deposit in the Construction Fund shall be invested in the types of obligations described in paragraph (iii) of the definition of Permitted Investments. Any interest or profits on such deposits and investments shall be retained in the Construction Fund.

Amounts on deposit in the Debt Service Reserve Fund shall be invested only in Permitted Investments with maturity dates not longer than five years from the date of investment or in Permitted Investments of the type described in paragraph (xiii) of the definition of the term "Permitted Investments" with maturities longer than five years that have been specifically approved in writing by the 1997A Insurer.

#### CONTINUING DISCLOSURE

District Undertaking. The District has undertaken, for the benefit of the 2001A Holders, to provide or cause to be provided:

(a) to each Repository and to the State Information Depository, if any, no later than 180 days after the end of each Fiscal Year, commencing with the Fiscal Year ending June 30, 2001, the Annual Information relating to such Fiscal Year;

(b) if not submitted as part of or with the Annual Information, to each Repository and to the State Information Depository, if any, audited financial statements of the District when and if they become available; provided that if the financial statements of the District are not available in audited form by the date provided for in (a), the Annual Information shall contain unaudited financial statements of the District in a format similar to the audited financial statements most recently prepared for the District, and such audited financial statements of the District shall be filed in the same manner as the Annual Information when and if they become available; and

(c) to each Repository or to the MSRB and to the State Information Depository, if any, in a timely manner, notice of any of the following events with respect to the Certificates, if material:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Certificates;
- (7) Modifications to the rights of 2001A Holders;
- (8) Unscheduled redemption of Certificates;

- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Certificates; and
- (11) Rating changes; and

(d) to each Repository or to the MSRB and to the State Information Depository, if any, in a timely manner, notice of a failure to provide any Annual Information required by paragraphs (a) and (b), above, and described below under “Annual Information,” “Incorporation by Reference,” “Modifications” and “The Insurer.” In connection with the foregoing, not later than 15 Business Days prior to the date specified in paragraph (a) the District shall provide the Annual Information to the Dissemination Agent. Promptly upon receipt of the Annual Information, the Dissemination Agent shall file the same with each Repository and the State Repository. If by 15 Business Days prior to the date specified in paragraph (a) for providing the Annual Information, the Dissemination Agent has not received a copy of the Annual Information, the Dissemination Agent shall contact the District to determine if the District is in compliance with the requirements of paragraph (a). If the Dissemination Agent is unable to verify that the Annual Information has been provided to each Repository and the State Information Depository, if any, the Dissemination Agent shall notify each Repository or the MSRB and the State Information Depository, if any, of such findings.

Other Information Nothing in the 1991A Trust Agreement shall be deemed to prevent the District from disseminating, or require the District to disseminate, any other information in addition to that required thereby in the manner set forth therein or in any other manner. If the District disseminates any such additional information, the District shall have no obligation to update such information or include it in any future materials disseminated thereunder.

Annual Information The required Annual Information shall consist of:

(a) to the extent not included in (b) below, the annual financial statements described below;

(b) updated versions of financial information and operating data relating to the District of the type contained in the Official Statement relating to the Certificates, under the following captions; provided, that such information shall be updated only for complete Fiscal Years, not for portions of Fiscal Years:

- (1) “INSTALLMENT SALES PAYMENT SCHEDULE”;
- (2) “THE DISTRICT - Debt Structure of the District - General”;
- (3) “HISTORICAL FINANCIAL OPERATIONS - Operating Revenues”;
- (4) “HISTORICAL FINANCIAL OPERATIONS - Nonoperating Revenues”;
- (5) “HISTORICAL FINANCIAL OPERATIONS - Historical Operating Results”;
- (6) “HISTORICAL FINANCIAL OPERATIONS - Management Discussion of Operation”; and
- (7) “HISTORICAL FINANCIAL OPERATIONS - Comparative Results (first two paragraphs only)”.

Incorporation by Reference. All or any portion of the Annual Information may be incorporated in the Annual Information by cross reference to any other documents which have been filed with (i) the Repositories, the State Information Depository and, if the document is an official statement, the MSRB or (ii) the Securities and Exchange Commission.

Modifications. Annual Information for any Fiscal Year containing any modified operating data or financial information (as contemplated in subsection (e) under the caption "Amendments" below) for such Fiscal Year shall explain, in narrative form, the reasons for such modification and the effect of such modification on the Annual Information being provided for such Fiscal Year. If a change in accounting principles is included in any such modification, such Annual Information shall present a comparison between the financial statements or information prepared on the basis of the modified accounting principles and those prepared on the basis of the former accounting principles.

The Insurer. If known to the District, the required Annual Information shall include the name, address and telephone number of a place where current information regarding the Insurer may be obtained.

Financial Statements. The District's annual financial statements for each Fiscal Year shall be prepared in accordance with GAAP. Such financial statements shall be audited by an independent accounting firm.

Remedies. If the District shall fail to comply with any provision relating to continuing disclosure, then any 2001A Holder may enforce against the District, for the equal benefit and protection of all 2001A Holders similarly situated, by mandamus or other suit or proceeding at law or in equity, the obligation to provide continuing disclosure and may compel the District to perform and carry out its duties regarding continuing disclosure under the 1991A Trust Agreement; provided that such failure to comply with any continuing disclosure provision shall not be deemed an Event of Default under the 1991A Trust Agreement and that the sole and exclusive remedy for breach of any such provision shall be an action to compel specific performance of such obligations of the District and no person or entity shall be entitled to recover monetary damages thereunder under any circumstances, and, provided further, that any challenge to the adequacy of any information provided pursuant to such provisions shall be brought only by the 2001A Holders of 25% in aggregate principal amount of the Certificates at the time outstanding which are affected thereby.

Beneficiaries. The obligation to provide continuing disclosure as provided under the 1991A Trust Agreement is solely for the benefit of the 2001A Holders. No other person shall have any right to enforce such provisions thereof, or any other rights thereunder.

Amendments. Without the consent of any 2001A Holders, the District at any time and from time to time may amend or change the provisions regarding continuing disclosure for any of the following purposes:

- (a) to comply with or conform to any changes in Rule 15c2-12 (whether required or optional);
- (b) to replace the Dissemination Agent and to make any necessary or desirable provisions with respect thereto;
- (c) to evidence the succession of another person to the District and the assumption by any such successor of the covenants of the District under the continuing disclosure covenant;
- (d) to add to the covenants of the District for the benefit of the 2001A Holders, or to surrender any right or power therein conferred upon the District; and
- (e) to modify the contents, presentation and format of the Annual Information from time to time as a result of a change in circumstances that arises from a change in legal requirements, change

in law, or change in the identity, nature or status of the District, or type of business conducted; provided that (i) the undertaking, as amended, would have complied with the requirements of Rule 15c2-12 at the time of the offering of the 2001A Certificates, after taking into account any amendments or authoritative interpretations of said Rule, as well as any change in circumstances; and (ii) the amendment or change does not materially impair the interests of 2001A Holders, as determined either by a party unaffiliated with the District (such as Special Counsel), or by the vote or consent of 2001A Holders of a majority in outstanding principal amount of the 2001A Certificates affected thereby at or prior to the time of such amendment or change.

Duration. The obligation to provide continuing disclosure under the 1991A Trust Agreement shall remain in full force and effect until such time as all principal, redemption premiums, if any, and interest with respect to the Certificates shall have been paid in full or the Certificates shall have otherwise been paid or legally defeased pursuant to the 1991A Trust Agreement. Upon any such legal defeasance, the Dissemination Agent shall provide notice of such defeasance to each Repository, the State Information Depository and the MSRB. Such notice shall state whether the Certificates have been defeased to maturity or to redemption and the timing of such maturity or redemption.

#### **D. SUMMARY OF CERTAIN PROVISIONS OF THE 1991 INSTALLMENT SALE AGREEMENT**

*The following is a summary of certain provisions of the 1991A Installment Sale Agreement as amended and supplemented by the First Amendment to the 1991A Installment Sale Agreement and the Second Amendment to the 1991A Installment Sale Agreement (collectively, the "1991A Installment Sale Agreement"). This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the 1991A Installment Sale Agreement.*

#### **THE 1991A PROJECT**

Purchase and Sale of the 1991A Project. The Corporation agrees to sell the 1991A Project to the District. In order to implement this provision, the Corporation appoints the District as its agent for the purpose of completing construction of the 1991A Project, as defined in the 1991A Installment Sales Agreement, and the District agrees to act as agent for the Corporation to provide for completing construction of the 1991A Project. The District agrees that as such agent it will cause the acquisition and construction of the 1991A Project to be diligently completed after the deposit of funds in the Construction Fund established pursuant to the 1991A Trust Agreement. The Corporation agrees to sell the 1991A Project to the District. The District agrees to purchase the 1991A Project from the Corporation.

#### **1991A INSTALLMENT SALE PAYMENTS**

Purchase Price. The principal amount of the Purchase Price to be paid by the District to the Corporation is sixty-eight million seven hundred thirty-five thousand dollars (\$68,735,000) and interest on the unpaid balance of the principal amount of the Purchase Price shall accrue: (i) in the case of the principal installments shown in Exhibit A to the 1991A Installment Sale Agreement under the heading "Additional 1997A Principal Installments," the rates shown in Exhibit A under the heading "1997A Interest Rates" and (ii) in the case of the principal installments shown in Exhibit A under the heading "Additional 2001A Principal Installments," the rates shown in Exhibit A under the heading "2001A Interest Rates". In connection with the foregoing, the District acknowledges its obligation to make the Prepaid 2001A Installment Sale Payments; however such obligation has been defeased by amounts in an Escrow Fund which have been determined, together with interest earnings thereon to be sufficient to pay, on July 1, 2001, the aggregate principal installments thereof, the interest installments thereof and the prepayment premium applicable thereto.

Payment of 1991A Installment Sale Payments. The District shall, subject to the prepayment provisions of the 1991A Installment Sale Agreement, pay the Corporation the Purchase Price, without offset or

deduction of any kind, by paying the principal installments of the 1991A Installment Sale Payments annually on July 1 in the amounts and in each of the years specified in the 1991A Installment Sale Agreement, together with interest installments of the 1991A Installment Sale Payments, which interest installments shall be paid semiannually in the amounts and on the interest payment dates specified in the 1991A Installment Sale Agreement.

The obligation of the District to pay the Purchase Price by paying the 1991A Installment Sale Payments from Net Water and Sewer Revenues is absolute and unconditional, and until such time as the 1991A Installment Sale Payments shall have been paid in full (or provision for the payment thereof shall have been made), the District will not discontinue or suspend any 1991A Installment Sale Payment required to be paid by it when due, whether or not the Water and Sewer System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced, 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 to any agreement for any cause whatsoever.

In order to provide for the timely payment of the 1991A Installment Sale Payments, the District agrees and covenants that it will, from Net Water and Sewer Revenues on deposit in the Installment Sale Payment Fund held under the Master Resolution, on or before the Business Day immediately preceding each Interest Payment Date, deposit with the Trustee an amount equal to the interest installment of the 1991A Installment Sale Payments due on such Interest Payment Date, and, on or before the Business Day immediately preceding each Principal Payment Date, deposit with the Trustee an amount equal to the principal installment of the 1991A Installment Sale Payments due on such Principal Payment Date.

Debt Service Reserve Fund. If the District shall at any time receive notice from the Trustee that the amount of money on deposit in the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement, the District agrees and covenants that it will, from Net Water and Sewer Revenues as provided in the Master Resolution, on or before the last Business Day immediately preceding the first day of each of the next twelve succeeding months, deposit with the Trustee an amount equal to one-twelfth (1/12) of the amount of the deficiency in the Debt Service Reserve Fund specified in such notice.

#### COVENANTS OF THE DISTRICT

Benefit of Master Resolution. The 1991A Installment Sale Payments are obligations payable from Net Water and Sewer Revenues on a parity with all other Contracts and Bonds. The Corporation shall be a beneficiary of all of the obligations assumed by the District and the covenants made by the District in the Master Resolution. The District shall perform all the obligations assumed by the District under, and shall comply with all the covenants made by the District in, the Master Resolution. The District shall not modify, amend or supplement the Master Resolution except with the written consent of the Trustee as provided in the 1991A Trust Agreement.

Compliance with 1991A Installment Sale Agreement and 1991A Trust Agreement. The District will punctually pay the 1991A Installment Sale Payments in strict conformity with, and will faithfully observe and perform all the agreements, conditions, covenants and terms required to be observed and performed by the District pursuant to the 1991A Installment Sale Agreement, and will not terminate the 1991A Installment Sale Agreement for any cause including any acts or circumstances that may constitute failure of consideration, destruction of or damage to the 1991A Project or the Water and Sewer System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Corporation to observe or perform any agreement, condition, covenant or term required to be observed and performed by it pursuant to the 1991A Installment Sale Agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the 1991A Installment Sale Agreement 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, lockouts, 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 1991A Trust Agreement required to be observed and performed by it, and it is expressly understood and agreed by and among the parties to the 1991A Installment Sale Agreement and the 1991A Trust Agreement that each of the agreements, conditions, covenants and terms contained in each such agreement is an essential and material term of the obligation of the District to repay the costs of the acquisition and construction of the 1991A Project and the incidental costs and expenses paid by the Corporation pursuant to and in accordance with the 1991A Installment Sale Agreement.

Tax Covenants. The District will not directly or indirectly use or permit the use of the proceeds of the obligation or any other funds of the District or take or omit to take any action which would cause such obligation to be an “arbitrage bond” within the meaning of Section 148 of the Code, or a “federally guaranteed obligation” under Section 149(b) of the Code, or a “private activity bond” as described in Section 141 of the Code. To that end, so long as any 1991A Installment Sale Payment is unpaid, the District will comply with all requirements of such sections of the Code to the extent applicable to the obligation provided therein.

The District will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the interest installments of the 1991A Installment Sale Payments will not be included in the gross income of the owners of the Certificates for federal income tax purposes under the Code and will take no action that would result in such interest being so included.

Protection of Security and Rights of the Corporation and the Trustee. The District will preserve and protect the security and the rights of the Corporation and the Trustee to the 1991A Installment Sale Payments and will warrant and defend such rights against all claims and demands of all persons.

#### EVENTS OF DEFAULT

Events of Default. Each of the following events constitutes an Event of Default under the 1991A Installment Sale Agreement:

- (1) the District shall default in the due and punctual payment of any 1991A Installment Sale Payment when and as the same shall become due and payable;
- (2) the District shall default in the performance of any of the agreements or covenants contained in the 1991A Installment Sale Agreement required 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 the Trustee; and
- (3) 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 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.

Remedies; No Acceleration. Upon the occurrence of an Event of Default the Trustee shall have the right --

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any member of the Board of Directors, officer or employee thereof, and to compel the District or any such member of the Board of Directors, officer, or employee to perform and carry out its or his duties under law and the agreements and covenants required to be performed by it or him under the 1991A Installment Sale Agreement;

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

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

Notwithstanding the above, the Trustee shall have no right to declare the principal or interest component of any 1991A Installment Sale Payment to be due and payable immediately. The Trustee may also exercise any other remedy given under the 1991A Installment Sale Agreement or existing in law or in equity or by statute or otherwise.

Under the terms of the 1991A Trust Agreement, the 1991A Installment Sale Agreement and the Master Resolution can be amended to provide that all Parity Obligations could be made subject to acceleration.

#### DISCHARGE OF OBLIGATIONS

##### Discharge of Obligations.

(a) If (1) the District shall pay or cause to be paid all the 1991A Installment Sale Payments at the times and in the manner provided in the 1991A Installment Sale Agreement, and (2) no Certificates remain Outstanding, the right, title and interest of the Corporation and the obligations of the District under the 1991A Installment Sale Agreement shall thereupon cease, terminate, become void and be completely discharged and satisfied, except only as provided in paragraph (c) below.

(b) Any unpaid principal installment of the 1991A Installment Sale Payments shall on its payment date or date of prepayment be deemed to have been paid within the meaning of and with the effect expressed in part (1) of paragraph (a) above if the District makes payment of such 1991A Installment Sale Payments and the prepayment premium, if applicable, in the manner provided in the 1991A Installment Sale Agreement.

(c) All or any portion of unpaid principal installments of the 1991A Installment Sale Payments shall, prior to their payment dates or dates of payment, be deemed to have been paid within the meaning of and with the effect expressed in part (1) of paragraph (a) above (except that the District shall remain liable for such 1991A Installment Sale Payments, but only out of such money or securities deposited with the Trustee for such payment), if (i) notice is provided by the District to the Trustee as required by the 1991A Trust Agreement, (ii) there shall have been deposited with the Trustee either money in an amount which shall be sufficient, or Defeasance Securities the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee, shall be sufficient to pay when due the principal installments of such 1991A Installment Sale Payments or such portions thereof on and prior to their payment dates or their dates of prepayment, as the case may be, and the prepayment premiums, if any, applicable thereto, and (iii) an opinion of nationally recognized bond counsel is filed with the Trustee to the effect that the action taken pursuant to this subsection will not cause the interest installments of the 1991A Installment Sale Payments to be includable in gross income under the Code for federal income tax purposes, and (iv) a report of an



independent nationally recognized certified public accountant or a financial advisor or a financial consultant of recognized standing in the field of municipal bonds is filed with the Trustee to the effect that the amount of moneys and the principal of and interest when due on the Defeasance Securities deposited at the same time with the Trustee shall be sufficient to pay when due the principal installments of such 1991A Installment Sale Payments or such portions thereof on and prior to their payment dates or their dates of prepayment, as the case may be, and the prepayment premiums, if any, applicable thereto.

### MISCELLANEOUS

Liability of District Limited to Net Water and Sewer Revenues. The District is not required to advance any moneys derived from any source of income other than the Net Water and Sewer Revenues for the payment of 1991A Installment Sale Payments or for the performance of any agreements or covenants required to be performed by it contained in the 1991A Installment Sale Agreement. 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 1991A Installment Sale Payments is a special obligation of the District payment solely from the Net Water and Sewer Revenues, and does not constitute a debt of the District or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Assignment. The 1991A Installment Sale Agreement and any accompanying rights shall be assigned by the Corporation to the Trustee as provided in the 1991A Trust Agreement; to which assignment the District expressly acknowledges and consents.

## **II. SUMMARY OF CERTAIN PROVISIONS OF THE 2001B TRUST AGREEMENT AND THE 2001B INSTALLMENT SALE AGREEMENT**

### **A. CERTAIN DEFINITIONS**

“Annual Information” means the information specified in the section captioned “Annual Information” in the 2001B Trust Agreement.

“Average Annual 2001B Installment Sale Payments” means the average total 2001B Installment Sale Payments payable per 2001B Installment Sale Payment Year during the period commencing with the then current 2001B Installment Sale Payment Year and terminating with the 2001B Installment Sale Payment Year ending on July 1, 2031.

“Certificate” or “Request” means, with respect to the District, an instrument in writing signed on behalf of the District by the President of the Board of Directors of the District, its General Manager, its Director of Finance or by any other officer of the District duly authorized by the Board of Directors of the District to sign documents on its behalf with respect to the matters referred to therein.

“Certificate Payment Date” means, with respect to any Certificate, the Certificate Payment Date designated therein, which is the July 1 on which, or in the case of Certificates subject to mandatory sinking fund prepayment by which, the principal installment evidenced and represented thereby shall become due and payable.

“Certificates” means the fifty-one million three hundred seventy thousand dollars (\$51,370,000) “Water and Sewer Revenue Certificates of Participation, Series 2001B, Evidencing and Representing Interests of the Owners thereof in 2001B Installment Sale Payments to be made by the Eastern Municipal Water District

under the 2001B Installment Sale Agreement” authorized by the 2001B Trust Agreement and at any time Outstanding that are executed and delivered by the Trustee under and pursuant to the 2001B Trust Agreement.

“Certificate Year” means with respect to the Certificates, the period beginning on the Delivery Date and ending on any date during the one-year period beginning on the Delivery Date, selected by the District in the Tax Certificate, and each successive twelve month (or shorter) period thereafter until there are no longer any obligations represented by the Certificates outstanding.

“Code” means the Internal Revenue Code of 1986, as amended, and any regulations, rulings, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or Internal Revenue Service interpreting and construing it.

“Construction Fund” means the fund by that name established pursuant to the 2001B Trust Agreement.

“Corporation” means Eastern Municipal Water District Facilities Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Corporation or the District and related to the authorization, execution and delivery of the 2001B Installment Sale Agreement and the Trust Agreement and the related sale of the Certificates, including, but not limited to, costs of preparation and reproduction of documents, costs of rating agencies and costs to provide information required by rating agencies, filing fees, initial fees and charges of the Trustee (including fees of counsel to the Trustee), fees and charges of the Corporation, legal fees and charges, fees and expenses of consultants and professionals, fees and expenses of the financial advisor, fees and charges for preparation, execution and safekeeping of the Certificates and any other charge, cost or fee in connection with the original sale, execution and delivery of the Certificates.

“Costs of Issuance Account” means the account by that name established in the Construction Fund pursuant to the 2001B Trust Agreement.

“Debt Service Fund” means the fund by that name established pursuant to the 2001B Trust Agreement.

“Debt Service Reserve Fund” means the fund by that name established pursuant to the 2001B Trust Agreement.

“Debt Service Reserve Fund Requirement” means, as of any date of calculation, an amount equal to the least of (i) or ten percent (10%) of the original aggregate principal amount of the Certificates, (ii) one hundred percent (100%) of Maximum Annual 2001B Installment Sale Payments, or (iii) one hundred twenty-five percent (125%) of Average Annual 2001B Installment Sale Payments, whichever is less, provided that said amount shall not exceed the amount described in 26 Code of Federal Regulations Section 148-2(f)(2)(ii).

“Debt Service Reserve Fund Surety Bond” means the surety bond, if any, delivered to the Trustee on the Delivery Date pursuant to the provisions of the 2001B Trust Agreement.

“Delivery Date” means the date of the delivery of the Certificates to the initial purchaser thereof.

“Director of Finance” means the Director of Finance of the District or his or her successor as designated by the Board of Directors of the District.

“Dissemination Agent” means U.S. Trust Company, National Association, acting in its capacity as Dissemination Agent, or any successor Dissemination Agent designated in writing by the District that has filed with the previous Dissemination Agent a written acceptance of such designation.

“District” means the Eastern Municipal Water District, a municipal water district duly organized and existing under and by virtue of the laws of the State of California.

“Event of Default” means an Event of Default as defined in the 2001B Installment Sale Agreement.

“Excess Investment Earnings Fund” means the fund by that name established and held by the Trustee pursuant to the 2001B Trust Agreement.

“GAAP” means generally accepted accounting principles applicable to the District, as in effect from time to time.

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

“Installment Sale Payment Fund” means the fund by that name established pursuant to the Master Resolution.

“2001B Installment Sale Payments” means the 2001B Installment Sale Payments.

“2001B Installment Sale Payment Year” means the twelve-month period ending on July 1 of each year.

“2001B Installment Sale Agreement” means that certain 2001B Installment Sale Agreement executed and entered into as of April 1, 2001, by and between the Corporation and the District, as originally executed and entered into and as it may from time to time be amended.

“2001B Installment Sale Payments” means all amounts payable to the Trustee by the District pursuant to the 2001B Installment Sale Agreement.

“2001B Installment Sale Payment Date” means any date on which 2001B Installment Sale Payments are scheduled to be paid by the District under and pursuant to the 2001B Installment Sale Agreement.

“2001B Project” means the design, engineering, permitting, acquisition or construction by the Corporation, for sale to the District, of such portions as the District shall designate of the following additions, betterments, extensions and improvements to the Water and Sewer System: expansion of the Moreno Valley Regional Water Reclamation Facility’s Tertiary Plant, replacement the Sanderson Lift Station, construction of the Perris Water Treatment Plant and construction of the Menifee Desalter Plant, in each case together with such additions, substitutions, deletions as shall be specified in a Certificate of the District stating that such additions, substitutions or deletions constitute improvements to the Water and Sewer System.

“Insurance Policy” means the municipal bond new issue insurance policy issued by the Insurer that guarantees payment of principal and interest evidenced and represented by the Certificates.

“Insurer” means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto.

“Interest Payment Date” means a date on which interest installments evidenced and represented by the Certificates becomes due and payable, being January 1 and July 1 of each year to which reference is made, commencing on July 1, 2001.

“Master Resolution” means the Resolution of the Board of Directors of the Eastern Municipal Water District Providing for the Allocation of Water and Sewer System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water and Sewer Revenues, adopted by the Board of Directors of the District on March 20, 1991, as amended by the First Supplemental Master Resolution adopted by the Board of Directors of the District on May 13, 1993, as it may be from time to time further modified, amended or supplemented.

“Maximum Annual 2001B Installment Sale Payments” means the greatest total 2001B Installment Sale Payments payable in any 2001B Installment Sale Payment Year during the period commencing with the then current 2001B Installment Sale Payment Year and terminating with the 2001B Installment Sale Payment Year ending on July 1, 2031.

“Moody’s” shall mean Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency designated by the District by written notice to the Trustee and with the prior written consent of the Insurer so long as the payment of principal and interest with respect to any Certificates is guaranteed by the Insurer under the Insurance Policy and the Insurer is not in default under the Insurance Policy.

“MSRB” means the Municipal Securities Rulemaking Board, established in accordance with the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934.

“Opinion of Counsel” means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, retained by the District and reasonably acceptable to the Trustee.

“Outstanding,” when used as of any particular time with reference to Certificates, means (subject to the disqualified Certificates provision of the 2001B Trust Agreement) all Certificates except --

- (1) Certificates cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (2) Certificates paid or deemed to have been paid within the meaning of the 2001B Trust Agreement; and
- (3) Certificates in lieu of and in substitution for which other Certificates shall have been executed and delivered by the Trustee under the 2001B Trust Agreement.

“Owner” means the registered owner of any Certificate.

“Permitted Investments” means any of the following to the extent then permitted by law:

- (i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the Federal agencies set forth in clause (iii) below to the extent unconditionally guaranteed by the United States of America, including obligations issued pursuant to paragraph 21B(d)(3) of the Federal Home Loan Bank Act, as amended by paragraph 511(a) of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, or any successor provisions to paragraph 21(B) of the Federal Home Loan Bank, as so amended;

(ii) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) hereof which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate, and (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (i) hereof which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (ii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate;

(iii) bonds, debentures, or other evidences of indebtedness issued or guaranteed by any agency or corporation which has been or may be created pursuant to an Act of Congress as an agency or instrumentality of the United States of America;

(iv) direct and general obligations of any state of the United States of America, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase such obligations are rated in one of the two highest rating categories (without regard to "+"s or "-"s) by Moody's and S&P;

(v) obligations of any state of the United States of America (other than the State) or any political subdivision of any state of the United States of America or any agency or instrumentality of any such state or political subdivision which at the time of their purchase shall be rated in the highest rating category (without regard to "+"s or "-"s) by Moody's and by S&P;

(vi) direct and general obligations of the State of California to the payment of the principal of and interest on which the full faith and credit of the State of California are pledged, or any bonds or other obligations of the State of California which as to principal and interest are unconditionally guaranteed by the State of California, which, in each case, at the time of their purchase shall be rated in one of the two highest rating categories (without regard to "+"s or "-"s) by Moody's and by S&P;

(vii) certificates or other instruments that evidence ownership of the right to payments of principal of or interest on obligations of any state of the United States of America or any political subdivision thereof or any agency or instrumentality of any state or political subdivision, provided that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a successor Trustee, and provided further that the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to a credit support arrangement provided by, one or more financial institutions or insurance companies or associations which shall be rated at the time of purchase in the highest rating category (without regard to "+"s or "-"s) by Moody's and S&P, or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy

shall result in such municipal bonds being rated in the highest rating category (without regard to “+”s or “-”s) by Moody’s and S&P;

(viii) certificates that evidence ownership of the right to payments of principal or interest on obligations described in clause (i), provided that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a successor Trustee under the 2001B Trust Agreement;

(ix) certificates of deposit, whether negotiable or non-negotiable, and banker’s acceptances of the 50 largest banks in the United States (including, the Trustee and its affiliates) or commercial paper issued by the parent holding company of any such bank which at the time of investment has an outstanding unsecured, uninsured and unguaranteed debt issue ranked in either of the two highest rating categories (without regard to “+”s or “-”s) by Moody’s and S&P (including the Trustee and its parent holding company, if any, if it otherwise qualifies);

(x) commercial paper, other than that issued by bank holding companies, rated at the date of investment in the highest short term rating category (without regard to “+”s or “-”s) by Moody’s and by S&P;

(xi) shares of an investment company, organized under the Investment Company Act of 1940, as amended, which invests its assets exclusively in obligations of the type described in clauses (i), (iii) or (v), including shares in funds or companies for which the Trustee or any of its affiliates provides investment advisory or other management services;

(xii) repurchase agreements collateralized by any one or more of the securities described in clauses (i) and (iii) with any registered broker/dealer subject to the Securities Investors’ Protection Corporation jurisdiction and recognized as a primary dealer by the Federal Reserve Bank of New York if such broker/dealer or bank or the holding company or other controlling corporation of such broker/dealer or bank has at the time of purchase an uninsured, unsecured and unguaranteed obligation rated “Prime 1” or “A3” by Moody’s and “A-1” or “A-” or better by S&P, provided:

(a) a master repurchase agreement or specific written repurchase agreement governs the transaction; and

(b) the securities are held by the Trustee or an independent third party acting solely as agent for the Trustee free and clear of any lien, and such third party is (a) a Federal Reserve Bank, (b) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$25 million, or (c) and the Trustee shall have received written confirmation from such third party that it holds such securities, free of any lien, as agent for the Trustee; and

(c) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Trustee; and

(d) the repurchase agreement has a term of thirty (30) days or less, or the Trustee will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the

required collateral percentage is not restored within two business days of such valuation; and

(e) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 100%;

(xiii) guaranteed investment contracts entered into with an entity the debt securities of which, or, if the obligations of such entity under the guaranteed investment contract are guaranteed by a guarantor, the debt securities of such guarantor, are rated in one of the two highest long-term rating categories (without regard to "+"s or "-"s) by Moody's and S&P at their time of purchase; and

(xiv) the Local Agency Investment Fund referred to in Section 16429.1 of the California Government Code.

"Prepayment Fund" means the fund by that name established pursuant to the 2001B Trust Agreement.

"Prepaid Interest Account" means the account by that name established in the Debt Service Fund pursuant to the 2001B Trust Agreement.

"Principal Payment Date" means a date on which principal installments evidenced and represented by the Certificates becomes due and payable, being July 1 of each year to which reference is made.

"Prior Expenditures" means the amounts expended by the District from its own funds for the design, engineering, permitting and construction of such portions as the District shall designate of the 2001B Project and for such portions of the Cost of Issuance as the District shall designate.

"Purchase Price" means the principal amount plus the interest thereon owed by the District to the Corporation under the conditions and terms of the 2001B Installment Sale Agreement for the purchase of the 2001 B Project and the incidental costs and expenses related thereto paid by the Corporation.

"Rebate Regulations" means any final, proposed or temporary Treasury Regulations promulgated under Section 148(f) of the Code.

"Repository" shall mean each nationally recognized municipal securities information repository within the meaning of Rule 15c2-12.

"Request" or "Certificate" means, with respect to the District, an instrument in writing signed on behalf of the District by the President of the Board of Directors of the District, its General Manager, its Director of Finance or by any other officer of the District duly authorized by the Board of Directors of the District to sign documents on its behalf with respect to the matters referred to therein.

"Rule 15c2-12" means Rule 15c2-12 under the Securities Exchange Act of 1934 together with all interpretative guidances or other official interpretations and explanations thereof that are promulgated by the United States Securities and Exchange Commission.

"S&P" shall mean Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, "S&P" will be deemed to refer to any other nationally recognized securities rating agency designated by the District by written notice to the Trustee and with the prior written consent of the Insurer so long as the

payment of principal and interest with respect to any Certificates is guaranteed by the Insurer under the Insurance Policy and the Insurer is not in default under the Insurance Policy.

“Special Counsel” means an attorney or firm of attorneys acceptable to the District, of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States of America or the District of Columbia.

“State Information Depository” means any applicable State of California information depository within the meaning of Rule 15c2-12.

“Tax Certificate” means that certain tax certificate executed on the Delivery Date by the District in connection with the execution and delivery of the Certificates.

“Trust Agreement” means the 2001B Trust Agreement executed and entered into as of April 1, 2001, by and among the Trustee, the Corporation and the District, as originally executed and entered into and as it may from time to time be amended or supplemented.

“Trustee” means U.S. Trust Company, National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, at its corporate trust offices in Los Angeles or San Francisco, California (or any other location where the Trustee conducts its corporate trust business), or any other bank or trust company which may at any time be substituted in its place as provided in the 2001B Trust Agreement at its principal corporate trust office.

“Water and Sewer System” means: (i) all property rights, contractual rights and facilities of the District relating to water, including all facilities for the treatment, conservation, storage, transmission and distribution of water now owned by the District and all other properties, structures or works for the treatment, conservation, storage, transmission and distribution of water and the generation and delivery of hydroelectric power in connection therewith acquired and constructed by or for the District and determined by the District to be a part of the Water and Sewer System; and (ii) all property rights, contractual rights and facilities of the District relating to wastewater, including all facilities for the transporting, treating, neutralizing, stabilizing or disposing of wastewater now owned by the District and all other properties, structures or works for the transporting, treating, neutralizing, stabilizing or disposing of wastewater acquired and constructed by or for the District and determined by the District to be a part of the Water and Sewer System; together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof acquired and constructed.

## **B. SUMMARY OF CERTAIN PROVISIONS OF THE 2001B TRUST AGREEMENT**

*The following is a summary of certain provisions of the 2001B Trust Agreement. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the 2001B Trust Agreement.*

### The Trustee

U.S. Trust Company, National Association, Los Angeles, California, has been appointed by the District and the Corporation as Trustee. The Trustee will receive all of 2001B Installment Sale Payments for disbursement in conformity with the 2001B Trust Agreement. In addition, the Trustee will act as Certificate registrar.



## Equal Security

In consideration of the acceptance of the Certificates by the Owners, the 2001B Trust Agreement shall be deemed to be and shall constitute a contract between the Trustee and the Owners to secure the full and final payment of the interest and principal and prepayment premiums, if any, evidenced and represented by the Certificates, subject to the agreements, conditions, covenants and terms contained therein; and all agreements, conditions, covenants and terms contained therein required to be observed or performed by or on behalf of the Trustee shall be for the equal and proportionate benefit, protection and security of all Owners without distinction, preference or priority as to benefit, protection or security of any Certificates over any other Certificates by reason of the number or date thereof or the time of execution or delivery thereof or otherwise for any cause whatsoever, except as expressly provided therein in the 2001B Trust Agreement or in the Certificates.

## Notices and Records Provisions Relating to the Insurance Policy.

(a) If, on the third day preceding any Interest Payment Date for the Certificates there is not on deposit with the Trustee sufficient moneys available to pay all principal of and interest on the Certificates due on such date, the Trustee shall immediately notify the Insurer and State Street Bank and Trust Company, N.A., New York, New York or its successor as its Fiscal Agent (the "Fiscal Agent") of the amount of such deficiency. If, by said Interest Payment Date, the District has not provided the amount of such deficiency, the Trustee shall simultaneously make available to the Insurer and to the Fiscal Agent the registration books for the Certificates maintained by the Trustee. In addition:

(i) The Trustee shall provide the Insurer with a list of the Owners entitled to receive principal or interest payments from the Insurer under the terms of the Insurance Policy and shall make arrangements for the Insurer and its Fiscal Agent (1) to mail checks or drafts to Owners entitled to receive full or partial interest payments from the Insurer and (2) to pay principal of the Certificates surrendered to the Fiscal Agent by the Owners entitled to receive full or partial principal payments from the Insurer; and

(ii) The Trustee shall, at the time it makes the registration books available to the Insurer pursuant to (i) above, notify Owners entitled to receive the payment of principal of or interest on the Certificates from the Insurer (1) as to the fact of such entitlement, (2) that the Insurer will remit to them all or part of the interest payments coming due subject to the terms of the Insurance Policy, (3) that, except as provided in paragraph (ii) below, in the event that any Owner is entitled to receive full payment of principal from the Insurer, such Owner must tender his Certificate with the instrument of transfer in the form provided on the Certificate executed in the name of the Insurer, and (4) that, except as provided in paragraph (b) below, in the event that such Owner is entitled to receive partial payment of principal from the Insurer, such Owner must tender his Certificate for payment first to the Trustee, which shall note on such Certificate the portion of principal paid by the Trustee, and then, with an acceptable form of assignment executed in the name of the Insurer, to the Fiscal Agent, which will then pay the unpaid portion of principal to the Owner subject to the terms of the Insurance Policy.

(b) In the event that the Trustee has notice that any payment of principal of or interest on a Certificate has been recovered from a Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time it provides notice to the Insurer, notify all Owners that in the event that any Owner's payment is so recovered, such Owner will be entitled to payment from the Insurer to the extent of such recovery, and the Trustee shall furnish to the Insurer its records evidencing the payments of principal of and interest on the Certificates which have been made by the Trustee and subsequently recovered from Owners, and the dates on which such payments were made.

(c) The Insurer shall, to the extent it makes payments of principal or interest on the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy and, to evidence such subrogation, (A) in the case of subrogation as to claims for past due interest, the Trustee shall note the Insurer's rights as subrogee on the registration books maintained by the Trustee upon receipt from the Insurer of proof of the payment of interest thereon to the Owners of such Certificates and (B) in the case of subrogation as to claims for past due principal, the Trustee shall note the Insurer's rights as subrogee on the registration books for the Certificates maintained by the Trustee upon receipt of proof of the payment of principal thereof to the Owners of such Certificates. Notwithstanding anything in this 2001B Trust Agreement or the Certificates to the contrary, the Trustee shall make payment of such past due interest and past due principal directly to the Insurer to the extent that the Insurer is a subrogee with respect thereto.

#### INSTALLMENT SALE PAYMENTS

Assignment of 2001B Installment Sale Payments. The Corporation, for good and valuable consideration, unconditionally grants, transfers and assigns to the Trustee without recourse all its rights to receive the 2001B Installment Sale Payments for the benefit of the Owners of the Certificates and any and all of the other rights, title and interest of the Corporation in the 2001B Installment Sale Agreement except the rights of the Corporation set forth in the indemnification provisions and its rights to receive payment of its fees, expenses and reimbursements, for the purpose of securing: (a) the payment of all sums due and owing to the Owners of the Certificates under the terms of the 2001B Trust Agreement; and (b) the observance, performance and discharge of each agreement, condition, covenant and term of the District contained in the 2001B Trust Agreement and in the 2001B Installment Sale Agreement, and the Trustee accepts such assignment.

All 2001B Installment Sale Payments shall be paid directly by the District to the Trustee, and all 2001B Installment Sale Payments received by the Trustee shall be held in trust by the Trustee under the terms of the 2001B Trust Agreement for the benefit of the District until deposited in the funds provided in the 2001B Trust Agreement, whereupon such money shall be held in trust in such funds by the Trustee for the benefit of the Owners. The District pledges and grants a lien on and a security interest to the Trustee in such moneys paid to the Trustee for the benefit of the Owners.

Deposit of 2001B Installment Sale Payments. The Trustee agrees to establish and maintain the funds described below so long as any Certificates are Outstanding, and the money in each of such funds shall be disbursed only for the purposes and uses hereinafter authorized. The Trustee shall deposit the 2001B Installment Sale Payments paid to it at the following respective times in the following respective funds in the manner hereinafter provided. Notwithstanding the provisions of Subsections (a) and (b) of this Section, any money in such funds not required to pay the principal, interest and prepayment premiums, if any, evidenced and represented by the Certificates shall on the Business Day immediately following each Interest Payment Date be deposited first in the Debt Service Reserve Fund, to the extent money is needed therein for the balance therein to equal the Debt Service Reserve Fund Requirement, and second, if the District so directs in writing, in the Excess Investment Earnings Fund, and third, after the above deposits are completed, shall be transferred to the District for deposit by the District in the Water and Sewer Revenue Fund held under the Master Resolution.

(a) Debt Service Fund. The Trustee shall establish a Prepaid Interest Account in the Debt Service Fund to be held separately from other monies in such fund. The Trustee shall hold in the Prepaid Interest Account the monies deposited therein pursuant to the 2001B Trust Agreement and utilize such monies to pay interest with respect to the Certificates prior to other monies in the Debt Service Fund until depleted.

The Trustee, on or prior to each Interest Payment Date (commencing on July 1, 2001), shall deposit in the Debt Service Fund that amount of money representing the portion of the 2001B Installment Sale Payments constituting the interest installment becoming due and payable on such Interest Payment Date. The Trustee, on

or prior to each Certificate Payment Date (commencing on July 1, 2024), shall deposit in the Debt Service Fund that amount of money representing the portion of the 2001B Installment Sale Payments constituting the principal installment becoming due and payable on such Certificate Payment Date. All money in the Debt Service Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest evidenced and represented by the Certificates on their respective Interest Payment Dates and paying the principal evidenced and represented by the Certificates on their respective Certificate Payment Dates or on mandatory prepayment prior thereto pursuant to the 2001B Trust Agreement.

(b) Prepayment Fund. The Trustee, at the time that any prepayment is paid to the Trustee pursuant to the 2001B Installment Sale Agreement, shall deposit in the Prepayment Fund the amount of such prepayment. All money in the Prepayment Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest and principal and prepayment premiums, if any, evidenced and represented by the Certificates to be prepaid on their respective prepayment dates.

Debt Service Reserve Fund.

(a) The Trustee shall deposit amounts received from the District pursuant to the debt service reserve fund provision of the 2001B Installment Sale Agreement and the Debt Service Reserve Fund Surety Bond, if any, in the Debt Service Reserve Fund. If the amount available and contained in the Debt Service Reserve Fund on the first Business Day of any month is less than the Debt Service Reserve Fund Requirement, the Trustee shall notify the District within thirty (30) days of such occurrence and request the District to replenish the Debt Service Reserve Fund in accordance with the 2001B Installment Sale Agreement. If at any time the amount available and contained in the Debt Service Reserve Fund exceeds an amount equal to the Debt Service Reserve Fund Requirement and if the District is not then in default under the 2001B Installment Sale Agreement or under the 2001B Trust Agreement, the Trustee shall, upon receipt of a Request of District, withdraw the amount of such excess from the Debt Service Reserve Fund and transfer such amount to the District for deposit in the Installment Sale Payment Fund held under the Master Resolution. For this determination, the Trustee shall make a valuation of the Permitted Investments in the Debt Service Reserve Fund as of July 1 of each year at the market value thereof, less accrued interest, and as of the date of any prepayment of Certificates, and the Trustee shall provide the District written notice of such valuation. Except for such withdrawals, all money in the Debt Service Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of making the principal and interest components of 2001B Installment Sale Payments in the event that such payments are not made by the District as provided in the 2001B Installment Sale Agreement.

(b) In lieu of making deposits in the Debt Service Reserve Fund pursuant to the debt service reserve fund provision of the 2001B Installment Sale Agreement, or in replacement of all or a portion of moneys then on deposit in the Debt Service Reserve Fund (which shall be transferred by the Trustee to the District), the District may deliver to the Trustee an insurance policy, surety bond or guaranty, with a term ending not earlier than the last scheduled Certificate Payment Date and otherwise in form and substance satisfactory to the Corporation, District, the Trustee and the Insurer, securing an amount, together with moneys or Permitted Investments on deposit in the Debt Service Reserve Fund, no less than the Debt Service Reserve Fund Requirement and issued or made by an insurance company whose claims paying ability shall be rated in the highest rating category (without regard to “+”s or “-”s) of Moody’s Investors Service and Standard & Poor’s Corporation at the time of delivery. Any such insurance policy, surety bond or guaranty shall be accompanied upon delivery to the Trustee by an Opinion (or opinions) of Counsel, acceptable to the Trustee and the Insurer, addressed to the Trustee and the Insurer, as to the due authorization, execution and delivery of such instrument and enforceability of such instrument in accordance with its terms, subject to applicable laws affecting creditors’ rights generally, and otherwise in form and substance satisfactory to the Trustee and the Insurer, and an Opinion of Counsel that the substitution of such instrument for amounts held in the Debt Service Reserve Fund will not adversely affect the exclusion from gross income of interest with respect to the Certificates for federal income tax purposes. Notwithstanding any other provision herein to the contrary, the District may elect to deposit such insurance policy, surety bond or guaranty into the Debt Service Reserve

Fund only if such instrument and the terms and conditions of the Trust Agreement and the 2001B Installment Sale Agreement meet the requirements set forth on Schedule A to the 2001B Trust Agreement. If and to the extent that money or Permitted Investments are also on deposit in the Debt Service Reserve Fund, all such money shall be used and Permitted Investments liquidated and the proceeds thereof used prior to any drawing under the insurance policy, guaranty or surety bond.

Excess Investment Earnings Fund.

(a) Establishment of Excess Investment Earnings Fund. With respect to the execution and delivery of the Certificates, the Trustee shall establish a separate special fund for such issue of certificates, to be designated as the 2001B Excess Investment Earnings Fund (the "Excess Investment Earnings Fund"), and the District shall comply with the requirements of this section. All money at any time deposited in the Excess Investment Earnings Fund shall be held by the Trustee in trust, for payment to the United States Treasury. All amounts on deposit in the Excess Investment Earnings Fund shall be governed by this section, and the Tax Certificate, unless the District obtains an opinion of Special Counsel that the exclusion from gross income of the interest component of the 2001B Installment Sale Payments will not be adversely affected for federal income tax purposes if such requirements are not satisfied.

(i) Annual Computation. With respect to the Excess Investment Earnings Fund, within 55 days of the end of each Certificate Year, the District shall calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f) of the Code and Section 1.148-2 of the Rebate Regulations, for this purpose treating the last day of the applicable Certificate Year as a computation date, within the meaning of Section 1.148-8(b) of the Rebate Regulations (the "Rebatable Arbitrage"). The District shall obtain expert advice as to the amount of the Rebatable Arbitrage to comply with this section.

(ii) Annual Transfer. With respect to the Excess Investment Earnings Fund, within 55 days of the end of each applicable Certificate Year, the District shall direct the Trustee, in writing, to deposit in the Excess Investment Earnings Fund from any legally available funds if and to the extent required, so that the balance in the Excess Investment Earnings Fund shall equal the amount of Rebatable Arbitrage so calculated in accordance with Subsection (a)(i). In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Excess Investment Earnings Fund exceeds the amount required to be on deposit therein, the District shall direct the Trustee, in writing, to withdraw the excess from the Excess Investment Earnings Fund and then credit the excess to the Debt Service Fund.

(iii) Payment to the Treasury. With respect to the Excess Investment Earnings Fund, the District shall direct the Trustee, in writing, to pay to the United States Treasury, out of amounts in the Excess Investment Earnings Fund:

(X) Not later than 60 days after the end of (A) the fifth Certificate Year, and (B) each fifth Certificate Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage with respect to the Certificates, calculated as of the end of such Certificate Year; and

(Y) Not later than 60 days after the payment of all of the Certificates, an amount equal to 100% of the Rebatable Arbitrage with respect to the Certificates, calculated as of the end of such Certificate Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code.

In the event that, prior to the time of any payment required to be made from the Excess Investment Earnings Fund, the amount in the Excess Investment Earnings Fund is not sufficient to make such payment when such payment is due, the District shall calculate or cause to be calculated the amount of such deficiency

and deposit an amount received from any legally available source equal to such deficiency in the Excess Investment Earnings Fund prior to the time such payment is due. Each payment required to be made pursuant to this Subsection (a)(iii) shall be made to the Internal Revenue Service Center, Philadelphia, Pennsylvania 19255 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T, or shall be made in such other manner as provided under the Code.

The Trustee shall conclusively be entitled to rely upon all calculations and directions made and furnished by the District under this section and shall be under no duty to take any action in the absence of such direction. The Trustee shall not incur any liability whatsoever in reliance upon and as instructed by such calculations and direction.

(b) Disposition of Unexpended Funds. Any funds remaining in the Excess Investment Earnings Fund after the repayment of the Certificates and the payments described in subsection (a)(iii) above may be withdrawn by the District and utilized in any manner by the District.

(c) Survival of Defeasance. Notwithstanding anything in the Excess Investment Earnings Fund Section to the contrary, the obligation to comply with the requirements of this section shall survive the defeasance of the obligation represented by the Certificates.

### COVENANTS

Compliance with 2001B Trust Agreement. The Trustee will not execute or deliver any Certificates in any manner other than in accordance with the express provisions of the 2001B Trust Agreement; and neither the Corporation nor the District will suffer or permit any default by them to occur thereunder, but each will faithfully observe and perform all the agreements, conditions, covenants and terms contained therein required to be observed and performed by them.

Compliance with and Amendment of or Supplement to the 2001B Installment Sale Agreement and the Master Resolution. The Corporation and the District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the 2001B Installment Sale Agreement required to be observed and performed by them, and will enforce the 2001B Installment Sale Agreement against the other party thereto in accordance with its terms.

The Corporation and the District may amend or supplement the 2001B Installment Sale Agreement with the prior written consent of the Trustee, which consent shall be given only if, in the opinion of the Trustee (which opinion may be based upon an Opinion of Counsel or a Certificate of the District), such amendment or supplement is not materially adverse to the interests of the Owners, including, but not limited to, amendments or supplements (i) to add to the agreements and covenants of either party other agreements and covenants to be observed, or to surrender any right or power therein reserved to the District, or (ii) to cure, correct or supplement any ambiguous or defective provision contained therein, or (iii) to provide for the acceleration of 2001B Installment Sale Payments as contemplated by Section 3.02 of the Master Resolution, (iv) to resolve questions arising thereunder as the parties thereto may deem necessary or desirable and which do not materially adversely affect the interests of the Owners of the Certificates, or (v) to revise the 2001B Installment Sale Payments Schedule attached to the 2001B Installment Sale Agreement as Exhibit A in connection with the execution and delivery of certificates that constitute Refunding Parity Obligations as defined in the Master Resolution and to otherwise provide for the execution and delivery of such certificates; provided, that the Trustee may consent to any amendment of or supplement to the 2001B Installment Sale Agreement if it first obtains the written consent, amendments or supplements of the Owners of at least a majority in aggregate principal amount of the Certificates then Outstanding to such amendment or supplement, except that no such amendment or supplement shall reduce the principal or interest component of any 2001B Installment Sale Payment without the written consent of the Owner of each Certificate evidencing and representing an interest therein. The District will give notice of any such amendment or supplement to each rating agency then rating the Certificates.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Master Resolution required to be observed and performed by the District.

The District may modify, amend or supplement the Master Resolution with the prior written consent of the Trustee, which consent shall be given only if, in the opinion of the Trustee (which opinion may be based upon an Opinion of Counsel or a Certificate of the District), such amendment or supplement is not materially adverse to the interests of the Owners, including, but not limited to, modifications, amendments or supplements (i) to add to the agreements and covenants of the District other agreements and covenants to be observed, or to surrender any right or power therein reserved to the District, or (ii) to cure, correct or supplement any ambiguous or defective provision contained therein, or (iii) to provide for the acceleration of the 2001B Installment Sale Payments evidenced by the Certificates as contemplated by Section 3.02 of the Master Resolution, or (iv) to resolve questions arising thereunder as the District may deem necessary or desirable, and which do not materially adversely affect the interests of the Owners of the Certificates; provided, that the Trustee may consent to any modification or amendment of or supplement to the Master Resolution if it first obtains the written consent of the Owners of at least a majority in aggregate principal amount of the Certificates then Outstanding to such modification, amendment or supplement. The District shall give notice of any such amendment or supplement to each rating agency then rating the Certificates. Notwithstanding any other provision of this Trust Agreement, the Trustee may consent to an amendment or supplement only if it receives an Opinion of Counsel that the exclusion from gross income of interest with respect to the Certificates will not be adversely affected for federal income tax purposes.

Tax Covenants. Notwithstanding any other provision of the 2001B Trust Agreement, absent an opinion of Special Counsel that the exclusion from gross income of the interest component of the 2001B Installment Sale Payments will not be adversely affected for federal income tax purposes, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The District will not take or omit to take any action or make any use of the proceeds of the Certificates or of any other monies or property which would cause the obligation represented by the Certificates to be a “private activity bond” within the meaning of Section 141 of the Code;

(b) Arbitrage. The District will make no use of the proceeds of the Certificates or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the obligation represented by the Certificates to be an “arbitrage bond” within the meaning of Section 148 of the Code;

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

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

(e) Miscellaneous. The District will take no action inconsistent with its expectations stated in the Tax Certificate and will comply with the covenants and requirements stated therein and incorporated by reference.

Prosecution and Defense of Suits. The District will defend against every action, suit or other proceeding at any time brought against the Trustee, the Corporation or any Owner upon any claim arising out of the receipt, deposit or disbursement of any of the 2001B Installment Sale Payments or involving any rights, duties or obligations of the Trustee, the Corporation or any Owner under the 2001B Trust Agreement, the 2001B Installment Sale Agreement and/or the 2001B Certificates; provided, that the Trustee, the Corporation or any Owner at its or his or her election may appear in and defend any such action, suit or other proceeding.

The District will indemnify and hold harmless the Trustee, the Corporation and the Owners against any and all liabilities claimed or asserted by any person and costs (including reasonable attorneys' fees) arising out of any such receipt, deposit or disbursement, and will indemnify and hold harmless the Owners against any reasonable attorneys' fees or other expenses which any of them may incur in connection with any litigation or otherwise in connection with the foregoing to which any of them may become a party in order to enforce their rights under the 2001B Trust Agreement or under the Certificates; provided, that with respect to any such attorneys' fees or other expenses suffered by the Owners such litigation shall be concluded favorably to such Owners' contentions therein.

Accounting Records and Statements. The Trustee shall keep proper books of record and account in accordance with trust accounting standards in which complete and correct entries shall be made of all transactions relating to the receipt, investment, disbursement, allocation and application of the 2001B Installment Sale Payments and the proceeds of the Certificates or the obligation which they evidence and represent. Such records shall be open to inspection by the District and by any Owner at any reasonable time during regular business hours on reasonable notice. Not later than the fifteenth (15th) day of each month, and continuing for so long as any Certificates are Outstanding, the Trustee will furnish to the Corporation and to the District a complete statement covering the receipts, deposits and disbursements of the funds held by the Trustee under the 2001B Trust Agreement for the preceding month in the format that the Trustee utilizes in preparing such statements.

Further Assurances. Whenever and so often as requested to do so by the Trustee or any Owner, the District and the Corporation will promptly execute and deliver, or cause to be executed and delivered, all such other and further assurances, documents or instruments 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 Owners the benefit, protection and security conferred, or intended to be conferred, upon them by the 2001B Trust Agreement.

#### DEFAULT AND LIMITATIONS OF LIABILITY

Action on Default. If any Event of Default shall happen, then such Event of Default shall constitute a default under the 2001B Trust Agreement, and in each and every such case during the continuance of such Event of Default the Trustee, upon being provided with indemnity satisfactory to the Trustee, or the Owners of not less than a majority in aggregate principal amount evidenced and represented by the Certificates at the time Outstanding shall be entitled, upon notice in writing to the District and to the Corporation, to exercise the remedies provided to the Corporation in the 2001B Installment Sale Agreement; provided, that nothing contained in the 2001B Trust Agreement shall affect or impair the right of action of any Owner to institute suit directly against the District to enforce payment of the obligation evidenced and represented by such Owner's Certificate; provided, further, that any payments made by the Insurer under the Insurance Policy shall not be deemed payments with respect to the Certificates for purposes of determining whether an Event of Default has occurred.

Other Remedies of the Trustee. The Trustee shall have the right --

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Corporation or the District or any director, officer or employee of the District, and to compel the Corporation or the District or any such director, officer or employee of the District to observe or perform its or his duties under applicable law and the agreements, conditions, covenants and terms contained in the 2001B Trust Agreement required to be observed or performed by it or him;

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

(c) by suit in equity upon the happening of any default under the 2001B Trust Agreement to require the Corporation and the District and the directors, officers and employees of the District to account as the trustee of an express trust.

Non-Waiver. A waiver of any default under the 2001B Trust Agreement or breach of any obligation thereunder by the Trustee shall not affect any subsequent default under the 2001B Trust Agreement or any subsequent breach of an obligation under 2001B Trust Agreement or impair any rights or remedies on any such subsequent default thereunder or on any such subsequent breach of an obligation thereunder. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default thereunder shall impair any such right or remedy or shall be construed to be a waiver of any such default under the 2001B Trust Agreement or an acquiescence therein, and every right or remedy conferred upon the Trustee by applicable 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 or the Corporation or the District, then the Trustee, the Corporation 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. Nothing contained in the 2001B Trust Agreement or in the Certificates shall affect or impair the obligation of the District under the 2001B Installment Sale Agreement to pay the 2001B Installment Sale Payments when due as provided in the 2001B Installment Sale Agreement.

Application of Funds. All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the 2001B Trust Agreement pursuant to an Event of Default or of Article V of the 2001B Installment Sale Agreement shall be deposited in a segregated account and shall be applied by the Trustee in the following order and upon presentation of the several Certificates, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid -

First, Costs and Expenses: to the payment of all of the costs and expenses of the Trustee (including the fees and expenses of its agents and counsel) and, after payment in full to the Trustee, of the Owners in declaring such Event of Default, including reasonable compensation to its or their agents, accountants and counsel;

Second, Interest: to the payment to the persons entitled thereto of all payments of interest evidenced and represented by the Certificates then due in the order of maturity of such payments, together with accrued and unpaid interest on Certificates theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any payment or payments of interest becoming due on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Third, Principal: to the payment to the persons entitled thereto of the unpaid principal evidenced and represented by any Certificates which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal evidenced and represented by the Certificates to be paid at a rate equal to the rate or rates of interest then applicable to the Certificates if paid in accordance with their terms, and, if the amount available shall not be sufficient to pay in full all the amounts due with respect to the Certificates on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee is intended to be exclusive and all remedies shall be cumulative and each remedy shall be in addition to every other remedy given under the 2001B Trust Agreement or existing under applicable law or equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any other applicable law.



No Liability by the Corporation to the Owners. The Corporation does not have any obligation or liability to the Owners with respect to the payment when due of the 2001B Installment Sale Payments by the District, or with respect to the observance or performance by the District of the other agreements, conditions, covenants and terms contained in the 2001B Installment Sale Agreement or the 2001B Trust Agreement required to be observed or performed by it, or with respect to the performance by the Trustee of any obligation contained in the 2001B Trust Agreement required to be performed by the District.

No Liability by the District to the Owners. Except for the payment when due of the 2001B Installment Sale Payments and the observance and performance of the other agreements, conditions, covenants and terms contained in the 2001B Installment Sale Agreement or required in the 2001B Trust Agreement to be observed or performed by it, the District shall not have any obligation or liability to the Owners with respect to the Trust Agreement or the preparation, execution, delivery, transfer, exchange or cancellation of the Certificates or the receipt, deposit or disbursement of the 2001B Installment Sale Payments by the Trustee, or with respect to the performance by the Trustee of any obligation contained therein required to be performed by it.

No Liability by the Trustee to the Owners. Except as expressly provided in the 2001B Trust Agreement, the Trustee shall not have any obligation or liability to the Owners with respect to the payment when due of the 2001B Installment Sale Payments by the District, or with respect to the observance or performance by the District of the other agreements, conditions, covenants and terms contained in the 2001B Installment Sale Agreement or required in the 2001B Trust Agreement to be observed and performed by it.

Rights of the Insurer as to Defaults and Remedies. Notwithstanding any other provisions of the Trust Agreement to the contrary, so long as the payment of the principal and interest with respect to any Certificates is guaranteed by the Insurer under the Insurance Policy and the Insurer is not in default under the Insurance Policy, the Insurer for all purposes of an Event of Default under the 2001B Trust Agreement shall be deemed the sole Owner of said Certificates with respect to which the Insurer guarantees the payment of principal and interest under the Insurance Policy. The Insurer, in addition to the rights of an Owner under the 2001B Trust Agreement, shall have the right (i) to give to the Trustee written notice of the occurrence of an Event of Default, and receipt of such notice by the Trustee shall constitute actual notice thereof for purposes of the 2001B Trust Agreement; and (ii) to request the Trustee in writing to intervene at any time in judicial proceedings that affect the Certificates or the security therefor after providing indemnification to its satisfaction.

In the event that the principal and/or the interest with respect to any Certificates is paid by the Insurer under the Insurance Policy, such Certificates shall remain Outstanding, and the Insurer shall be fully subrogated to the rights of the Owners of such Certificates in accordance with the terms of the Insurance Policy. To evidence such subrogated rights, (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Insurer's rights as subrogee to such past due interest on the registration books maintained by the Trustee pursuant to the 2001B Trust Agreement upon receipt from the Insurer of proof of the payment of such interest to the Owners entitled thereto and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Insurer's rights as subrogee to such past due principal on such registration books upon receipt from the Insurer of proof of the payment of such principal to the Owners entitled thereto. Notwithstanding anything in the 2001B Trust Agreement or in the Certificates to the contrary, the Trustee shall make payment of such past due interest and past due principal directly to the Insurer to the extent that the Insurer is a subrogee with respect thereto.

#### AMENDMENT OF OR SUPPLEMENT TO THE TRUST AGREEMENT

Amendment or Supplement. The 2001B Trust Agreement and the rights and obligations of the Corporation and the District and Owners and the Trustee thereunder may be amended or supplemented at any time by an amendment thereof or supplement thereto 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 therein, are filed with the Trustee. No such amendment or supplement shall (1) reduce the rate of interest evidenced and represented by any Certificate or extend the time of payment thereof or reduce the amount of principal or prepayment premium, if any, evidenced and represented by any Certificate or extend the Certificate Payment Date thereof or otherwise alter or impair the obligation of the District to pay the interest and principal and prepayment premium, if any, evidenced and represented thereby at the time and place and at the rate and in the currency and from the funds provided therein without the prior written consent of the Owner of the Certificate so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of amendments thereof or supplements thereto or for the execution of amendments or supplements to the 2001B Trust Agreement, the 2001B Installment Sale Agreement or the Master Resolution as provided in the 2001B Trust Agreement, or (3) modify any of the rights or obligations of the Trustee without its prior written consent thereto.

The 2001B Trust Agreement and the rights and obligations of the Corporation and the District and the Owners and the Trustee thereunder may also be amended or supplemented at any time by an amendment thereof or supplement thereto which shall become binding upon execution without the written consents of any Owners, but only to the extent permitted by law and after receipt of an approving Opinion of Counsel and only if, in the opinion of the Trustee (which opinion may be based upon an Opinion of Counsel or a Certificate of the District), such amendment or supplement is not materially adverse to the interests of the Owners, including, but not limited to, amendments or supplements:

(a) to add to the agreements, conditions, covenants and terms contained in the 2001B Trust Agreement required to be observed or performed by the Corporation or the District other agreements, conditions, covenants and terms thereafter to be observed or performed by the Corporation or the District, or to surrender any right reserved to or conferred on the Corporation or the District, and which in either case shall not adversely affect the interests of the Owners;

(b) to modify, amend or supplement the 2001B Trust Agreement in such manner as to preserve the exemption of the Certificates from the registration requirements of the Securities Act of 1933 or any similar federal statute in effect or to permit the qualification of the 2001B Trust Agreement under the Trust Indenture Act of 1939 or any similar federal statute in effect;

(c) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the 2001B Trust Agreement or in regard to questions arising thereunder which the Corporation or the District may deem desirable or necessary, and which shall not adversely affect the interests of the Owners;

(d) to provide for the acceleration of the Certificates and the 2001B Installment Sale Payments represented thereby as contemplated by Section 3.02 of the Master Resolution;

(e) to modify, amend or supplement the 2001B Trust Agreement to implement applicable provisions of Schedule A thereto and other requirements of the Insurer in the event that the District elects to deposit an insurance policy, a surety bond or a guaranty into the Debt Service Reserve Fund pursuant to the terms of the 2001B Trust Agreement; or

(f) to make any modifications or changes necessary or appropriate in the Opinion of Counsel to preserve or protect the exclusion from gross income for federal income tax purposes of interest evidenced and represented by the Certificates.

In determining whether any such amendment or supplement is not materially adverse to the interests of the Owners, the Trustee shall make its determination assuming that no Insurance Policy guarantees the payment of the principal and interest with respect to Certificates affected by any such amendment or supplement, unless any such amendment or supplement affects the rights and obligations of the Insurer or the Insurance Policy.

The Corporation and the District shall, unless otherwise waived by the Insurer, give written notice of any amendment to the Trust Agreement and the rights and obligations of the Corporation and the District and the Owners and the Trustee under the 2001B Trust Agreement to Moody's and S&P not less than fifteen (15) days prior to the execution thereof.

Rights of Insurer as to Amendments and Notices to Moody's and S&P. Notwithstanding any other provision of the 2001B Trust Agreement to the contrary, so long as the payment of the principal and interest with respect to any Certificates is guaranteed by the Insurer under the Insurance Policy and the Insurer is not in default under the Insurance Policy, any amendment or supplement to the 2001B Trust Agreement shall be subject to the prior written consent of the Insurer. Moody's and S&P shall be provided a notice of any such amendment or supplement at least fifteen (15) days prior to its execution and effectiveness. Whenever the Trustee receives a consent of the Insurer in accordance with these provisions, the Trustee shall forward to Moody's and S&P, at their respective principal corporate headquarters, a copy of such consent together with the amendment or supplement to which it applies.

## DEFEASANCE

### Discharge of Certificates and Trust Agreement.

(a) If the Trustee shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Certificates the interest and principal and prepayment premiums, if any, evidenced and represented thereby at the times and in the manner provided in the 2001B Trust Agreement and the Certificates, then all agreements and covenants of the Corporation and the District to such Owners thereunder shall thereupon cease, terminate and become void and shall be completely discharged and satisfied.

(b) Any Outstanding Certificates shall on their Certificate Payment Dates or their dates of prepayment prior thereto be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if there shall be on deposit with the Trustee money held in trust for the benefit of the Owners of such Certificates which is sufficient to pay the interest and principal and prepayment premiums, if any, evidenced and represented by such Certificates payable on and prior to their Certificate Payment Dates or their dates of prepayment prior thereto.

(c) Any Outstanding Certificates shall prior to their Certificate Payment Dates or their dates of prepayment prior thereto be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) above if (1) in case any of such Certificates are to be prepaid on any date prior to their Certificate Payment Dates, the District shall have given to the Trustee in form satisfactory to it irrevocable instructions to give notice by mail in accordance with the 2001B Trust Agreement to the Owners of such Certificates of the prepayment of such Certificates on such prepayment dates, (2) there shall have been deposited with the Trustee either money in an amount which shall be sufficient, or Defeasance Securities, the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee at the same time, shall be sufficient (as evidenced by a report of an Independent Certified Public Accountant regarding such sufficiency) to pay when due the interest evidenced and represented by such Certificates on and prior to their Certificate Payment Dates or their dates of prepayment prior thereto, as the case may be, and the principal and prepayment premiums, if any, evidenced and represented by such Certificates, (3) in the event such Certificates are not by their terms subject to prepayment within the next succeeding sixty (60) days, the District shall have given the Trustee in form satisfactory to it irrevocable instructions to give notice by mail in accordance with the 2001B Trust Agreement to the Owners of such Certificates that the deposit required by clause (2) above has been made with the Trustee and that such Certificates are deemed to have been paid in accordance with the 2001B Trust Agreement and stating their Certificate Payment Dates or their dates of prepayment prior thereto upon which money is to be available for the payment of the interest and principal and prepayment premiums, if any, evidenced and represented by such Certificates, and (4) an Opinion of Counsel is filed with the Trustee to the effect that the action taken will not

cause the interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes.

#### CONTINUING DISCLOSURE

District Undertaking. The District undertakes, for the benefit of the Owners, to provide or cause to be provided:

(a) to each Repository and to the State Information Depository, if any, no later than 180 days after the end of each Fiscal Year, commencing with the Fiscal Year ending June 30, 2001, the Annual Information relating to such Fiscal Year;

(b) if not submitted as part of or with the Annual Information, to each Repository and to the State Information Depository, if any, audited financial statements of the District when and if they become available; provided that if the financial statements of the District are not available in audited form by the date provided for in (a), the Annual Information shall contain unaudited financial statements of the District in a format similar to the audited financial statements most recently prepared for the District, and such audited financial statements of the District shall be filed in the same manner as the Annual Information when and if they become available;

(c) to each Repository or to the MSRB and to the State Information Depository, if any, in a timely manner, notice of any of the following events with respect to the Certificates, if material:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the 2001B Certificates;
- (7) Modifications to the rights of Owners;
- (8) Unscheduled redemption of Certificates;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Certificates; and
- (11) Rating changes; and

(d) to each Repository or to the MSRB and to the State Information Depository, if any, in a timely manner, notice of a failure to provide any Annual Information required by paragraphs (a) and (b), above, and any other section under the caption "CONTINUING DISCLOSURE." In connection with the foregoing, not later than 15 Business Days prior to the date specified in paragraph (a) the District shall provide the Annual Information to the Dissemination Agent. Promptly upon receipt of the Annual Information, the Dissemination Agent shall file the same with each Repository and the State Information Depository. If by 15

Business Days prior to the date specified in paragraph (a) for providing the Annual Information, the Dissemination Agent has not received a copy of the Annual Information, the Dissemination Agent shall contact the District to determine if the District is in compliance with the requirements of paragraph (a). If the Dissemination Agent is unable to verify that the Annual Information has been provided to each Repository and the State Information Depository, if any, the Dissemination Agent shall notify each Repository or the MSRB and the State Information Depository, if any, of such findings.

Other Information. Nothing in the 2001B Trust Agreement shall be deemed to prevent the District from disseminating, or require the District to disseminate, any other information in addition to that required by the 2001B Trust Agreement in the manner set forth therein or in any other manner. If the District disseminates any such additional information, the District shall have no obligation to update such information or include it in any future materials disseminated thereunder.

Annual Information. The required Annual Information shall consist of:

- (a) to the extent not included in (b) below, the annual financial statements described below;
- (b) updated versions of financial information and operating data relating to the District of the type contained in the Official Statement relating to the Certificates, under the following captions; provided, that such information shall be updated only for complete Fiscal Years, not for portions of Fiscal Years:
  - (1) "INSTALLMENT SALES PAYMENT SCHEDULE";
  - (2) "THE DISTRICT - Debt Structure of the District - General";
  - (3) "HISTORICAL FINANCIAL OPERATIONS - Operating Revenues";
  - (4) "HISTORICAL FINANCIAL OPERATIONS - Nonoperating Revenues";
  - (5) "HISTORICAL FINANCIAL OPERATIONS - Historical Operating Results";
  - (6) "HISTORICAL FINANCIAL OPERATIONS - Management Discussion of Operation"; and
  - (7) "HISTORICAL FINANCIAL OPERATIONS - Comparative Results (first two paragraphs only)".

Incorporation by Reference. All or any portion of the Annual Information may be incorporated in the Annual Information by cross reference to any other documents which have been filed with (i) the Repositories, the State Information Depository and, if the document is an official statement, the MSRB or (ii) the Securities and Exchange Commission.

Modifications. Annual Information for any Fiscal Year containing any modified operating data or financial information for such Fiscal Year shall explain, in narrative form, the reasons for such modification and the effect of such modification on the Annual Information being provided for such Fiscal Year. If a change in accounting principles is included in any such modification, such Annual Information shall present a comparison between the financial statements or information prepared on the basis of the modified accounting principles and those prepared on the basis of the former accounting principles.

Insurer. If known to the District, the required Annual Information shall include the name, address and telephone number of a place where current information regarding the Insurer may be obtained.

Financial Statements. The District's annual financial statements for each Fiscal Year shall be prepared in accordance with GAAP. Such financial statements shall be audited by an independent accounting firm.

Remedies. If the District fails to comply with any continuing disclosure requirement under the 2001B Trust Agreement, then any Owner may enforce against the District, for the equal benefit and protection of all Owners similarly situated, by mandamus or other suit or proceeding at law or in equity, the obligation to provide continuing disclosure as described under the 2001B Trust Agreement and may compel the District to perform and carry out its continuing disclosure duties under the 2001B Trust Agreement; provided that such failure to comply with any continuing disclosure provision of the 2001B Trust Agreement shall not be deemed an Event of Default under the 2001B Trust Agreement and that the sole and exclusive remedy for breach of any continuing disclosure provision shall be an action to compel specific performance of the obligations of the District under the 2001B Trust Agreement and no person or entity shall be entitled to recover monetary damages under the 2001B Trust Agreement under any circumstances, and, provided further, that any challenge to the adequacy of any information provided pursuant to above shall be brought only by the Owners of 25% in aggregate principal amount of the Certificates at the time outstanding which are affected thereby.

Beneficiaries. The obligation to provide continuing disclosure as provided under the 2001B Trust Agreement is solely for the benefit of the Owners. No other person shall have any right to enforce the provisions of, or any other continuing disclosure rights under the 2001B Trust Agreement.

Amendments. Without the consent of any Owners, the District at any time and from time to time may amend or change the continuing disclosure requirements of the 2001B Trust Agreement for any of the following purposes:

- (a) to comply with or conform to any changes in Rule 15c2-12 (whether required or optional);
- (b) to add a Dissemination Agent for the information required to be provided thereby and to make any necessary or desirable provisions with respect thereto;
- (c) to evidence the succession of another person to the District and the assumption by any such successor of the covenants of the District under the continuing disclosure covenant;
- (d) to add to the covenants of the District for the benefit of the Owners, or to surrender any right or power conferred upon the District under the 2001B Trust Agreement; and
- (e) to modify the contents, presentation and format of the Annual Information from time to time as a result of a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the District, or type of business conducted; provided that (i) the undertaking, as amended, would have complied with the requirements of Rule 15c2-12 at the time of the offering of the Certificates, after taking into account any amendments or authoritative interpretations of said Rule, as well as any change in circumstances; and (ii) the amendment or change does not materially impair the interests of Owners, as determined either by a party unaffiliated with the District (such as Special Counsel), or by the vote or consent of Owners of a majority in outstanding principal amount of the Certificates affected thereby at or prior to the time of such amendment or change.

Duration. The obligation to provide continuing disclosure under the 2001B Trust Agreement shall remain in full force and effect until such time as all principal, redemption premiums, if any, and interest with respect to the Certificates shall have been paid in full or the Certificates shall have otherwise been paid or legally defeased pursuant to the 2001B Trust Agreement. Upon any such legal defeasance, the Dissemination Agent shall provide notice of such defeasance to each Repository, the State Information Depository and the MSRB. Such notice shall state whether the Certificates have been defeased to maturity or to redemption and the timing of such maturity or redemption.

**C. SUMMARY OF CERTAIN PROVISIONS OF THE  
2001B INSTALLMENT SALE AGREEMENT**

*The following is a summary of certain provisions of the 2001B Installment Sale Agreement. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the 2001B Installment Sale Agreement.*

**THE 2001B PROJECT**

**Purchase and Sale of the 2001B Project.** The Corporation agrees to design, acquire and construct the 2001B Project for, and to sell the 2001B Project to, the District. In order to implement this provision, the Corporation appoints the District as its agent for the purpose of such design, acquisition and construction, and the District agrees to enter into such engineering, design and construction contracts and purchase orders as may be necessary, as agent for the Corporation, to provide for the complete design, acquisition and construction of the 2001B Project. The District agrees that as such agent it will cause the acquisition and construction of the 2001B Project to be diligently completed after the deposit of funds in the Construction Fund for such purpose pursuant to the 2001B Trust Agreement. The Corporation agrees to sell, and sells, the 2001B Project to the District. The District agrees to purchase, and purchases, the 2001B Project from the Corporation. Notwithstanding the foregoing, it is expressly understood and agreed that the Corporation shall be under no liability of any kind or character whatsoever for the payment of any costs or expenses incurred by the District including Prior Expenditures (whether as agent for the Corporation or otherwise) for the engineering, design, acquisition or construction of the 2001B Project and that all such costs and expenses shall be paid by the District, regardless of whether the funds deposited in the Construction Fund are sufficient to cover all such costs.

**2001B INSTALLMENT SALE PAYMENTS**

**Purchase Price.**

(a) The Purchase Price to be paid by the District to the Corporation under the 2001B Installment Sale Agreement is the sum of the principal amount of the District's obligation thereunder, plus the interest to accrue on the unpaid balance of such principal amount from the date of the 2001B Installment Sale Agreement over the term thereof, subject to prepayment as provided in the 2001B Installment Sale Agreement.

(b) The principal amount of the Purchase Price to be paid by the District to the Corporation is fifty-one million three hundred seventy thousand dollars (\$51,370,000).

(c) The interest to accrue on the unpaid balance of the principal amount of the Purchase Price shall be paid by the District as and shall constitute interest paid on the principal amount of the District's Purchase Price obligation under the 2001B Installment Sale Agreement.

(d) Interest on the unpaid balance of the principal amount of the Purchase Price shall accrue, from March 15, 2001 on the principal component of each 2001B Installment Sale Payment at the rates set forth in the 2001B Installment Sale Agreement.

**Payment of 1993A Installment Sale Payments.** The District shall, subject to prepayment as provided in the 2001B Installment Sale Agreement, pay the Corporation the Purchase Price, without offset or deduction of any kind, by paying in immediately available funds which constitute legal tender of the United States of America the principal installments of the 2001B Installment Sale Payments annually in the amounts and on July 1 in each of the years in accordance with Exhibit A attached thereto and incorporated therein, together with interest installments of the 2001B Installment Sale Payments, which interest installments shall be paid

semiannually in the amounts and on the Interest Payment Dates in accordance with Exhibit A attached to the 2001B Installment Sale Agreement and incorporated therein.

The obligation of the District to pay the Purchase Price by paying the 2001B Installment Sale Payments is, subject to the limitations set forth in the 2001B Installment Sale Agreement, absolute and unconditional, and until such time as the 2001B Installment Sale Payments have been paid in full (or provision for the payment thereof shall have been made pursuant to the 2001B Installment Sale Agreement), the District will not discontinue or suspend any 2001B Installment Sale Payments required to be paid by it under the 2001 Installment Sale Agreement when due, whether or not the Water and Sewer System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced, 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 to any agreement for any cause whatsoever. The payment of the principal or interest with respect to any Certificates by the Insurer pursuant to the Insurance Policy shall not be deemed to constitute a payment of amounts due under the 2001B Installment Sale Agreement and shall not relieve the District of its obligation to pay any of the 2001B Installment Sale Payments.

In order to provide for the timely payment of the 2001B Installment Sale Payments, the District agrees and covenants that it will, from Net Water and Sewer Revenues on deposit in the Installment Sale Payment Fund held under the Master Resolution, on or before the fourth day immediately preceding each Interest Payment Date, deposit with the Trustee an amount equal to the interest installment of the 2001B Installment Sale Payments due on such Interest Payment Date, and, on or before the fourth day immediately preceding each Principal Payment Date, deposit with the Trustee an amount equal to the principal installment of the 2001B Installment Sale Payments due on such Principal Payment Date. In accordance with the 2001B Trust Agreement, amounts so deposited shall, until such Interest Payment Date or Principal Payment Date, as the case may be, be invested for the benefit of the District and all earnings on such investment shall, except as otherwise provided in the 2001B Trust Agreement, be paid to the District and deposited by the District in the Water and Sewer Revenue Fund held under the Master Resolution.

Debt Service Reserve Fund. If the District shall at any time receive notice from the Trustee that the amount of money on deposit in, or of any insurance policy, surety bond or guaranty in lieu thereof as provided for in the 2001B Trust Agreement on deposit in, the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement, the District agrees and covenants that it will, from Net Water and Sewer Revenues as provided in the Master Resolution, on or before the last Business Day immediately preceding the first day of each of the next twelve succeeding months, deposit with the Trustee an amount equal to one-twelfth (1/12) of the amount of the deficiency in the Debt Service Reserve Fund specified in such notice. To the extent the District is obligated to make a payment in respect of the Debt Service Reserve Fund Requirement, the District's 2001B Installment Sale Payment obligation shall be increased to provide a sufficient amount to make such payment.

#### COVENANTS OF THE DISTRICT

Pledge; Benefit of Master Resolution. To secure the prompt payment of the 2001B Installment Sale Payments, the District pledges its Net Water and Sewer Revenues and the amounts on deposit in or to the credit of the Installment Sale Payment Fund established and maintained under the Master Resolution; provided, that such pledge is not senior or superior to but is pari passu with, the pledge thereof to the payment of all other Parity Obligations incurred in accordance with the terms of the Master Resolution. The Corporation shall be a beneficiary of all of the obligations assumed by the District and the covenants made by the District in the Master Resolution. The District shall perform all the obligations assumed by the District under, and shall comply with all the covenants made by the District in, the Master Resolution. The District shall not modify, amend or supplement the Master Resolution except with the written consent of the Trustee as provided in the 2001B Trust Agreement.



Compliance with 2001B Installment Sale Agreement and Trust Agreement. The District will punctually pay the 2001B Installment Sale Payments in strict conformity with the 2001B Installment Sale Agreement, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the 2001B Installment Sale Agreement required to be observed and performed by it, and will not terminate the 2001B Installment Sale 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 2001B Project or the Water and Sewer System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Corporation to observe or perform any agreement, condition, covenant or term contained in the 2001B Installment Sale Agreement required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with the 2001B Installment Sale Agreement 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, lockouts, 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 2001B Trust Agreement required to be observed and performed by it, and it is expressly understood and agreed by and among the parties to the 2001B Installment Sale Agreement and the 2001B Trust Agreement that each of the agreements, conditions, covenants and terms contained in each such agreement is an essential and material term of the obligation of the District to pay the costs of the purchase of the 2001B Project and the costs and expenses incidental thereto paid by the Corporation pursuant to, and in accordance with, and as authorized under law and the 2001B Installment Sale Agreement.

Tax Covenants. The District will not directly or indirectly use or permit the use of the proceeds of the obligation provided in the 2001B Installment Sale Agreement or any other funds of the District or take or omit to take any action which would cause such obligation to be an "arbitrage bond" within the meaning of Section 148 of the Code, or a "federally guaranteed obligation" under Section 149(b) of the Code, or a "private activity bond" as described in Section 141 of the Code. To that end, so long as any 2001B Installment Sale Payment is unpaid, the District will comply with all requirements of such sections of the Code to the extent applicable to the obligation provided in the 2001B Installment Sale Agreement.

The District will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the interest installments of the 2001B Installment Sale Payments will not be included in the gross income of the owners of the Certificates for federal income tax purposes under the Code and will take no action that would result in such interest being so included.

Protection of Security and Rights of the Corporation and the Trustee. The District will preserve and protect the security of the 2001B Installment Sale Agreement and the rights of the Corporation and the Trustee to the 2001B Installment Sale Payments under the 2001B Installment Sale Agreement and will warrant and defend such rights against all claims and demands of all persons.

#### EVENTS OF DEFAULT AND REMEDIES

Events of Default. Each of the following events shall constitute an Event of Default under the 2001B Installment Sale Agreement:

- (1) the District shall default in the due and punctual payment of any 2001B Installment Sale Payment when and as the same shall become due and payable;
- (2) the District shall default in the performance of any of the agreements or covenants contained in the 2001B Installment Sale Agreement required 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 the Trustee; and

(3) 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.

Remedies; No Acceleration. Upon the occurrence of an Event of Default the Trustee, as assignee of the Corporation, shall have the right --

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any member of the Board of Directors, officer or employee thereof, and to compel the District or any such member of the Board of Directors, officer or employee to perform and carry out its or his duties under law and the agreements and covenants required to be performed by it or him contained in the 2001B Installment Sale Agreement;

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

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

Notwithstanding the above, the Trustee shall have no right to declare the principal or interest component of any 2001B Installment Sale Payment to be due and payable immediately.

#### DISCHARGE OF OBLIGATIONS

##### Discharge of Obligations.

(a) If (1) the District shall pay or cause to be paid all of the 2001B Installment Sale Payments at the times and in the manner provided in the 2001B Installment Sale Agreement, and (2) no Certificates remain Outstanding (as that term is defined in the 2001B Trust Agreement), the right, title and interest of the Corporation and the obligations of the District under the 2001B Installment Sale Agreement shall thereupon cease, terminate, become void and be completely discharged and satisfied, except only as provided in subsection (c) below.

(b) Any unpaid principal installment of the 2001B Installment Sale Payments shall on its payment date or date of prepayment be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) (1) above if the District makes payment of such 2001B Installment Sale Payments and the prepayment premium, if applicable, in the manner provided in the 2001B Installment Sale Agreement.

(c) All or any portion of unpaid principal installments of the 2001B Installment Sale Payments shall, prior to their payment dates or dates of prepayment, be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) (1) above (except that the District shall remain liable for such 2001B Installment Sale Payments, but only out of such money or securities deposited with the Trustee for such payment), if (i) notice is provided by the District to the Trustee as required by the 2001B Trust Agreement, (ii) there shall have been deposited with the Trustee either money in an amount which shall be sufficient, or Defeasance Securities, the interest on and principal of which when paid will provide money which, together

with money, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal installments of such 2001B Installment Sale Payments or such portions thereof on and prior to their payment dates or their dates of prepayment, as the case may be, and the prepayment premiums, if any, applicable thereto, (iii) an opinion of counsel is filed with the Trustee to the effect that the action taken pursuant to this subsection will not cause the interest installments of the 2001B Installment Sale Payments to be includable in gross income under the Code for federal income tax purposes, and (iv) a report of an independent nationally recognized certified public accountant or a financial advisor or a financial consultant of recognized standing in the field of municipal bonds is filed with the Trustee to the effect that the amount of moneys and the principal of and interest when due on the Defeasance Securities deposited at the same time with the Trustee shall be sufficient to pay when due the principal installments of such 2001B Installment Sale Payments or such portions thereof on and prior to their payment dates or their dates of prepayment, as the case may be, and the prepayment premiums, if any, applicable thereto.

(d) After the payment of all 2001B Installment Sale Payments and prepayment premiums, if any, as provided in this section, and payment of all fees and expenses of the Trustee, the Trustee, upon receipt of a Request of the District, shall cause an accounting for such period or periods as may be reasonably requested by the District to be prepared and filed with the District and the Corporation and shall execute and deliver to the District and the Corporation all such instruments as may be necessary or desirable to evidence such total discharge and satisfaction of the 2001B Installment Sale Agreement, and the Trustee shall pay over and deliver to the District upon receipt of written direction by the District, as an overpayment of 2001B Installment Sale Payments, all such money or investments held by it pursuant to the 2001B Installment Sale Agreement other than such money and such investments as are required for the payment or prepayment of the 2001B Installment Sale Payments, which money and investments shall continue to be held by the Trustee in trust for the payment of the 2001B Installment Sale Payments and shall be applied by the Trustee pursuant to the Trust Agreement.

#### MISCELLANEOUS

Liability of District Limited to Net Water and Sewer Revenues. The District is not required to advance any moneys derived from any source of income other than the Net Water and Sewer Revenues for the payment of the 2001B Installment Sale Payments or for the performance of any agreements or covenants required to be performed by it contained in the 2001B Installment Sale Agreement. 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 2001B Installment Sale Payments is a special obligation of the District payable solely from the Net Water and Sewer Revenues as provided in the 2001B Installment Sale Agreement, and does not constitute a debt of the District or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Assignment. The 2001B Installment Sale Agreement and any rights thereunder shall be assigned by the Corporation to the Trustee as provided in the Trust Agreement; to which assignment the District expressly acknowledges and consents.

Amendment. So long as the payment of the principal and interest with respect to any Certificates is guaranteed by the Insurer under the Insurance Policy and the Insurer is not in default under the Insurance Policy, any amendment to this 2001B Installment Sale Agreement shall be subject to the prior written consent of the Insurer and the Insurer shall receive a full transcript of all proceedings relating to the approval and execution of any such amendment.

**III. SUMMARY OF CERTAIN PROVISIONS OF THE 1993A TRUST AGREEMENT AS SUPPLEMENTED BY THE FIRST SUPPLEMENT TO THE 1993A TRUST AGREEMENT AND THE 1993A INSTALLMENT SALE AGREEMENT AS AMENDED BY THE FIRST AMENDMENT TO THE 1993A INSTALLMENT SALE AGREEMENT**

**A. CERTAIN DEFINITIONS**

“Annual Information” means the information specified in the continuing disclosure provisions of the 1993A Trust Agreement.

“Average Annual 1993A Installment Sale Payments” means the average total 1993A Installment Sale Payments payable per 1993A Installment Sale Payment Year during the period commencing with the then current 1993A Installment Sale Payment Year and terminating with the 1993A Installment Sale Payment Year ending on July 1, 2023.

“Certificate” or “Request” means, with respect to the District, an instrument in writing signed on behalf of the District by the President of the Board of Directors of the District, or by any other officer of the District duly authorized by the Board of Directors of the District to sign documents on its behalf with respect to the matters referred to therein.

“Certificates” means the 2001C Certificates and the 1993A Certificates authorized and at any time Outstanding that are executed and delivered by the Trustee under and pursuant to the 1993A Trust Agreement and are Outstanding thereunder.

“Certificate Year” means with respect to the Certificates, the period beginning on the Delivery Date and ending on any date during the one-year period beginning on the Delivery Date, selected by the District in the Tax Certificate, and each successive twelve month (or shorter) period thereafter until there are no longer any obligations represented by the Certificates outstanding.

“Certificate Payment Date” means, with respect to any Certificate, the Certificate Payment Date designated therein, which is the July 1 on which, or in the case of Certificates subject to mandatory sinking fund prepayment by which, the principal installment evidenced and represented thereby shall become due and payable.

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations issued thereunder.

“Cost of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Corporation or the District and related to the authorization, execution and delivery of the 1993A Installment Sale Agreement and the 1993A Trust Agreement and the related sale of the Certificates, or to the authorization, execution and delivery of amendments of or supplements to the 1993A Installment Sale Agreement and the 1993A Trust Agreement and the related sale of the 2001C Certificates, including, but not limited to, costs of preparation and reproduction of documents, costs of rating agencies and costs to provide information required by rating agencies, filing fees, initial fees and charges of the Trustee, fees and charges of the Corporation, legal fees and charges, fees and expenses of consultants and professionals, fees and expenses of the financial advisor, fees and charges for preparation, execution and safe keeping of the Certificates or any other charge, cost or fee in connection with the original sale, execution and delivery of the Certificates.

“Corporation” means Eastern Municipal Water District Facilities Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California.

“Costs of Issuance Account” means the account by that name established in the Construction Fund pursuant to the 1993A Trust Agreement.

“Debt Service Fund” means the fund by that name established pursuant to the 1993A Trust Agreement.

“Debt Service Reserve Fund” means the fund by that name established pursuant to the 1993A Trust Agreement.

“Debt Service Reserve Fund Requirement” means, as of any date of calculation, an amount equal to the least of (i) \$4,634,000, or ten percent of the aggregate principal amount of the 1993A Certificate, (ii) one hundred percent (100%) of Maximum Annual 1993A Installment Sale Payments, or (iii) one hundred twenty-five percent (125%) of Average Annual 1993A Installment Sale Payments.

“Defeasance Securities” means and includes, if and to the extent the same are permitted by law, only such securities as are described in clauses (i), (ii) and (iii) below which shall not be subject to redemption prior to their maturity other than at the option of the holder thereof, or as to which an irrevocable notice of redemption of such securities on a specified redemption date has been given and such securities are not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, as follows:

- (i) any bonds or other obligations which as to principal and interest constitute direct non-callable obligations of, or are unconditionally guaranteed as to the timely payment of principal and interest by, the United States of America, including obligations of any of the Federal agencies to the extent unconditionally guaranteed as to the timely payment of principal and interest by the United States of America;
- (ii) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) hereof, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate, and (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (i) hereof which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (ii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate; provided, however, any such bonds or obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any state as described above shall be rated “AAA” by S&P and/or “Aaa” by Moody’s; and
- (iii) certificates that evidence ownership of the right to payments of principal or interest on obligations described in clause (i), but only if the same constitute Refcorp interest strips, CATS, TGRS and STRPS (as such terms are used in the municipal bond industry).

“Delivery Date” means the date of the delivery of the Certificates to the initial purchaser thereof.

“Director of Finance” means the Director of Finance of the District or his successor as designated by the Board of Directors of the District.

“District” means the Eastern Municipal Water District, a municipal water district duly organized and existing under and by virtue of the laws of the State of California.

“Event of Default” means an Event of Default as defined in the 1993A Installment Sale Agreement.

“Excess Investment Earnings Fund” means the fund by that name established and held by the Trustee pursuant to the 1993A Trust Agreement.

“Dissemination Agent” means, initially, U.S. Trust Company, National Association, acting in its capacity as Dissemination Agent under the 1993A Trust Agreement, or any successor Dissemination Agent designated in writing by the District which has filed with the then current Dissemination Agent a written acceptance of such designation.

“Experienced Banker or Advisor” means a reputable investment banker experienced in underwriting obligations of the type which is the subject of an opinion rendered in accordance with a provision of the Master Resolution, or a reputable financial advisor experienced in advising issuers in connection with such issuers’ issuance of obligations of the type which is the subject of an opinion rendered in accordance with a provision of the Master Resolution.

“First Amendment to the 1993A Installment Sale Agreement” means that certain First Amendment to the 1993A Installment Sale Agreement executed and entered into as of April 1, 2001, by and between the Corporation and the District.

“First Supplement to the 1993A Trust Agreement” means that certain First Supplement to the 1993A Trust Agreement executed and entered into as of April 1, 2001, by and among the Trustee, the Corporation and the District.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other annual accounting period selected and designated by the Board of Directors of the District as the Fiscal Year of the District.

“Independent Certified Public Account” means any firm of certified public accountants appointed by the District which is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certificate Public Accountants.

“Insurance Policy” means the municipal bond new issue insurance policy issued by the Insurer that guarantees payment of principal and interest evidenced and represented by the Certificates.

“Insurer” means, in the context of the Insurance Policy and the Certificates other than the 2001C Certificates, Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto, or, in the context of the 2001C Insurance Policy and the 2001C Certificates, the 2001C Insurer.

“Interest Payment Date” means a date on which interest installments evidenced and represented by the 2001C Certificates becomes due and payable, being January 1 and July 1 of each year to which reference is made, commencing on July 1, 2001.

“Master Resolution” means the Resolution of the Board of Directors of the Eastern Municipal Water District Providing for the Allocation of Water and Sewer System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water and Sewer Revenues, adopted by the Board of Directors of the District on March 20, 1991, as amended by the First Supplemental Master Resolution adopted by the Board of Directors of the District on May 13, 1993, as it may be from time to time further modified, amended or supplemented.

“Maximum Annual 1993A Installment Sale Payments” means the greatest total 1993A Installment Sale Payments payable in any 1993A Installment Sale Payment Year during the period commencing with the then current 1993A Installment Sale Payment Year and terminating with the 1993A Installment Sale Payment Year ending on July 1, 2023.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency designated by the District by written notice to the Trustee and with the prior written consent of the Insurer so long as the payment of principal and interest with respect to any Certificates is guaranteed by the Insurer under the Insurance Policy and the Insurer is not in default under the Insurance Policy.

“1993A Certificates” means the forty-six million, three hundred forty thousand dollars (\$46,340,000) “Water and Sewer Revenue Certificates of Participation, Series 1993A, Evidencing and Representing Interests of the Owners Thereof in 1993A Installment Sale Payments To Be Made by the Eastern Municipal Water District under the 1993A Installment Sale Agreement.”

“1993A Installment Sale Payment Year” means the twelve-month period ending on July 1 of each year.

“1993A Installment Sale Agreement” means that certain Installment Sale Agreement executed and entered into as of May 1, 1993, by and between the Corporation and the District and as amended by the First Amendment to the 1993A Installment Sale Agreement and as it may from time to time be amended or supplemented in accordance therewith.

“1993A Installment Sale Payment Date” means any date on which 1993A Installment Sale Payments are scheduled to be paid by the District under and pursuant to the 1993A Installment Sale Agreement.

“1993A Installment Sale Payments” means the Installment Sale Payment scheduled to be paid by the District under and pursuant to the 1993A Installment Sale Agreement.

“1993A Project” means the design, engineering, permitting, acquisition or construction by the Corporation, for sale to the District, of such portions as the district shall designate of the following additions, betterments, extensions and improvements to the Water and Sewer System: (i) the Mills Treatment Plant Feeder Line Project, including a pipeline connection from the Mills Treatment Plant to Lake Perris, a pump station at the Mills Treatment Plant and a pump station at Lake Perris; (ii) the District’s reclaimed water system projects, including regional water treatment plan storage facilities, distribution/recharge facilities and discharge facilities; and (iii) the additional water system projects, including Pat Road Pumping Station, Auld Road Pumping Station, Auld Pump Station Chlorination, Holland/Simpson Distribution Pipeline, Simpson/Fruitvale Phase I-Distribution Pipeline, Simpson/Fruitvale Phase II-Distribution Pipeline, and a 1,500 foot production well; with such additions, substitutions, deletions as shall be specified in a Certificate of the District stating that such additions, substitutions or deletions constitute improvements to the Water and Sewer System.

“1993A Trust Agreement” means the trust agreement executed and entered into as of May 1, 1993 by and among the Trustee, the Corporation and the District, as originally executed and entered into and as supplemented by the First Supplement to the 1993A Trust Agreement executed and entered into as of April 1, 2001 and as it may from time to time be amended or supplemented in accordance therewith.

“Opinion of Counsel” means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, retained by the District and reasonably acceptable to the Trustee.

“Outstanding” means, when used as of any particular time with reference to Certificates, means any Certificates except —

- (1) Certificates cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (2) Certificates paid or deemed to have been paid under the Trust Agreement; and
- (3) Certificates in lieu of and in substitution for which other Certificates shall have been executed and delivered by the Trustee under the Trust Agreement.

“Owner” means the registered owner of any Certificate.

“Permitted Investments” means any of the following to the extent then permitted by law:

- (i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the Federal agencies set forth in clause (iii) below to the extent unconditionally guaranteed by the United States of America, including obligations issued pursuant to paragraph 21B(d)(3) of the Federal Home Loan Bank Act, as amended by paragraph 511(a) of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, or any successor provisions to paragraph 21(B) of the Federal Home Loan Bank Act, as so amended;
- (ii) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) hereof which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate, and (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (i) hereof which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (ii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate;
- (iii) bonds, debentures, or other evidences of indebtedness issued or guaranteed by any agency or corporation which has been or may be created pursuant to an Act of Congress as an agency or instrumentality of the United States of America;
- (iv) direct and general obligations of any state of the United States of America, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase such obligations are rated in one of the two highest rating categories (without regard to “+”s or “-”s) by Moody’s and S&P;
- (v) obligations of any state of the United States of America (other than the State) or any political subdivision of any state of the United States of America or any agency or instrumentality of any such state or political subdivision which at the time of their purchase shall be rated in the highest rating category (without regard to “+”s or “-”s) by Moody’s and by S&P;



- (vi) direct and general obligations of the State of California to the payment of the principal of and interest on which the full faith and credit of the State of California are pledged, or any bonds or other obligations of the State of California which as to principal and interest are unconditionally guaranteed by the State of California, which, in each case, at the time of their purchase shall be rated in one of the two highest rating categories (without regard to "+"s or "-"s) by Moody's and by S&P;
- (vii) certificates or other instruments that evidence ownership of the right to payments of principal of or interest on obligations of any state of the United States of America or any political subdivision thereof or any agency or instrumentality of any state or political subdivision, provided that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a successor Trustee under the 1993A Trust Agreement, and provided further that the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to a credit support arrangement provided by, one or more financial institutions or insurance companies or associations which shall be rated in the highest rating category (without regard to "+"s or "-"s) by Moody's and S&P, or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy shall result in such municipal bonds being rated in the highest rating category (without regard to "+"s or "-"s) by Moody's and S&P;
- (viii) certificates that evidence ownership of the right to payments of principal or interest on obligations described in clause (i), provided that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a successor Trustee under the 1993A Trust Agreement;
- (ix) certificates of deposit, whether negotiable or non-negotiable, and banker's acceptances of the 50 largest banks in the United States or commercial paper issued by the parent holding company of any such bank which at the time of investment has an outstanding unsecured, uninsured and unguaranteed debt issue ranked in either of the two highest rating categories (without regard to "+"s or "-"s) by Moody's and S&P (including the Trustee and its parent holding company, if any, if it otherwise qualifies);
- (x) commercial paper, other than that issued by bank holding companies, rated at the date of investment in the highest short term rating category (without regard to "+"s or "-"s) by Moody's and by S&P;
- (xi) shares of an Investment Company, organized under the Investment Company Act of 1940 as amended, which invests in assets exclusively in obligations of the type described in clauses (i), (iii) or (v);
- (xii) repurchase agreements collateralized by any one or more of the securities described in clauses (i) and (iii) with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction and recognized as a primary dealer by the Federal Reserve Bank of New York if such broker/dealer or bank or the holding company or other controlling corporation of such broker/dealer or bank has at the time of their purchase an uninsured, unsecured and unguaranteed obligation rated "Prime 1" or "A3" by Moody's and "A-1" or "A-" or better by S&P, provided:
  - (a) a master repurchase agreement or specific written repurchase agreement governs the transaction; and

- (b) the securities are held by the Trustee or an independent third party acting solely as agent for the Trustee free and clear of any lien, and such third party is (a) a Federal Reserve Bank, (b) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$25 million, or (c) and the Trustee shall have received written confirmation from such third party that it holds such securities, free of any lien, as agent for the Trustee; and
- (c) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Trustee; and
- (d) the repurchase agreement has a term of thirty (30) days or less, or the Trustee will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and
- (e) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 100%;
- (xiii) guaranteed investment contracts entered into with an entity the debt securities of which, or, if the obligations of such entity under the guaranteed investment contract are guaranteed by a guarantor, the debt securities of such guarantor, are rated in one of the two highest long-term rating categories (without regard to “+”’s or “-”’s) by Moody’s and S&P; and
- (xiv) The Local Agency Investment Fund referred to in Section 16429.1 of the California Government Code.

“Prior Expenditures” means the amounts expended by the District from its own funds for the design, engineering, permitting and construction of such portions as the District shall designate of the 1993A Project and for such portions of the Cost of Issuance as the District shall designate.

“Principal Payment Date” means a date on which principal installments evidenced and represented by the Certificates becomes due and payable, being July 1 of each year to which reference is made.

“Purchase Price” means the principal amount plus the interest thereon owed by the District to the Corporation under the conditions and terms of the 1993A Installment Sale Agreement for the purchase of the 1993A Project and the incidental cash and expenses related thereto paid by the Corporation.

“Rebate Regulations” means any final, proposed or temporary Treasury Regulations promulgated under Section 148(f) of the Code.

“Repository” shall mean any nationally recognized municipal securities information repository within the meaning of Rule 15c2-12.

“S&P” means Standard & Poor’s Ratings Services, a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “S&P” will be deemed to refer to any other nationally recognized securities rating agency designated by the District by written notice to the Trustee and with the prior written consent of the Insurer so long as the payment of principal and interest with respect to any Certificates is guaranteed by the Insurer under the Insurance Policy and the Insurer is not in default under the Insurance Policy.

“Special Counsel” means an attorney or firm of attorneys acceptable to the District, of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States of America or the District of Columbia.

“State Information Depository” means any applicable State of California information depository within the meaning of Rule 15c2-12.

“Tax Certificate” means that certain tax certificate executed on the Delivery Date by the District in connection with the execution and delivery of the Certificates.

“Trustee” means the U.S. Trust Company, National Association, or any successor trustee pursuant to the 1993A Trust Agreement.

“2001C Certificates” means the thirteen million nine hundred eighty-five thousand dollars (\$13,985,000) “Water and Sewer Revenue Refunding Certificates of Participation, Series 2001C, Evidencing and Representing Interests of the Owners thereof in Installment Sale Payments To Be Made by the Eastern Municipal Water District under the 1993A Installment Sale Agreement” authorized by the 1993A Installment Sale Agreement and at any time Outstanding thereunder that are executed and delivered by the Trustee under and pursuant to the 1993A Trust Agreement.

“2001C Holder” means any registered owner of any 2001C Certificate and any actual purchaser of a 2001C Certificate during any period in which the 2001C Certificates are in book-entry only form and any beneficial owner of any 2001C Certificate within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934.

“2001C Installment Sale Payment Year” means the twelve-month period ending on July 1 of each year.

“2001C Insurance Policy” means the municipal bond new issue insurance policy issued by the 2001C Insurer that guarantees payment of principal and interest evidenced and represented by the 2001C Certificates.

“2001C Insurer” means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto.

“Water and Sewer System” means: (i) all property rights, contractual rights and facilities of the District relating to water, including all facilities for the treatment, conservation, storage, transmission and distribution of water now owned by the District and all other properties, structures or works for the treatment, conservation, storage, transmission and distribution of water and the generation and delivery of hydroelectric power in connection therewith acquired and constructed by or for the District and determined by the District to be a part of the Water and Sewer System; and (ii) all property rights, contractual rights and facilities of the District relating to wastewater, including all facilities for the transporting, treating, neutralizing, stabilizing or disposing of wastewater now owned by the District and all other properties, structures or works for the transporting, treating, neutralizing, stabilizing or disposing of wastewater acquired and constructed by or for the District and determined by the District to be a part of the Water and Sewer System; together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof acquired and constructed.

**B. SUMMARY OF CERTAIN PROVISIONS OF THE 1993  
TRUST AGREEMENT**

The following is a summary of certain provisions of the 1993A Trust Agreement as amended and supplemented by the First Supplement to the 1993A Trust Agreement (collectively, the "1993A Trust Agreement"). This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the 1993A Trust Agreement.

The Trustee

U.S. Trust Company, National Association, Los Angeles, California, has been appointed by the District and the Corporation as Trustee. The Trustee will receive all of the 1993A Installment Sale Payments for disbursement in conformity with the 1993A Trust Agreement. In addition, the Trustee will act as Certificate registrar.

Equal Security

In consideration of the acceptance of the Certificates by the Owners, the 1993A Trust Agreement shall be deemed to be and shall constitute a contract between the Trustee and the Owners to secure the full and final payment of the interest and principal and prepayment premiums, if any, evidenced and represented by the Certificates, subject to the agreements, conditions, covenants and terms contained therein; and all agreements, conditions, covenants and terms contained therein required to be observed or performed by or on behalf of the Trustee shall be for the equal and proportionate benefit, protection and security of all Owners without distinction, preference or priority as to benefit, protection or security of any Certificates over any other Certificates by reason of the number or date thereof or the time of execution or delivery thereof or otherwise for any cause whatsoever, except as expressly provided in the 1993A Trust Agreement or in the Certificates.

Provisions Relating to the 2001C Insurance Policy.

(a) If, on the third day preceding any Interest Payment Date for the Certificates there is not on deposit with the Trustee sufficient moneys available to pay all principal of and interest on the Certificates due on such date, the Trustee shall immediately notify the 2001C Insurer and State Street Bank and Trust Company, N.A., New York, New York or its successor as its Fiscal Agent (the "Fiscal Agent") of the amount of such deficiency. If, by said Interest Payment Date, the District has not provided the amount of such deficiency, the Trustee shall simultaneously make available to the 2001C Insurer and to the Fiscal Agent the registration books for the Certificates maintained by the Trustee. In addition:

(i) The Trustee shall provide the 2001C Insurer with a list of the Owners entitled to receive principal or interest payments from the 2001C Insurer under the terms of the Insurance Policy and shall make arrangements for the 2001C Insurer and its Fiscal Agent (1) to mail checks or drafts to Owners entitled to receive full or partial interest payments from the 2001C Insurer and (2) to pay principal of the Certificates surrendered to the Fiscal Agent by the Owners entitled to receive full or partial principal payments from the 2001C Insurer; and

(ii) The Trustee shall, at the time it makes the registration books available to the 2001C Insurer pursuant to (i) above, notify Owners entitled to receive the payment of principal of or interest on the Certificates from the 2001C Insurer (1) as to the fact of such entitlement, (2) that the 2001C Insurer will remit to them all or part of the interest payments coming due subject to the terms of the Insurance Policy, (3) that, except as provided in paragraph (b) below, in the event that any Owner is entitled to receive full payment of principal from the 2001C Insurer, such Owner must tender his Certificate with the instrument of transfer in the form provided on the Certificate executed in the name of the 2001C Insurer, and (4) that, except as provided in paragraph (b) below, in the event that such Owner is entitled to receive partial payment of principal from the 2001C Insurer, such Owner must

tender his Certificate for payment first to the Trustee, which shall note on such Certificate the portion of principal paid by the Trustee, and then, with an acceptable form of assignment executed in the name of the 2001C Insurer, to the Fiscal Agent, which will then pay the unpaid portion of principal to the Owner subject to the terms of the Insurance Policy.

(b) In the event that the Trustee has notice that any payment of principal of or interest on a Certificate has been recovered from a Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time it provides notice to the 2001C Insurer, notify all Owners that in the event that any Owner's payment is so recovered, such Owner will be entitled to payment from the 2001C Insurer to the extent of such recovery, and the Trustee shall furnish to the 2001C Insurer its records evidencing the payments of principal of and interest on the Certificates which have been made by the Trustee and subsequently recovered from Owners, and the dates on which such payments were made.

(c) The 2001C Insurer shall, to the extent it makes payments of principal of or interest on the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy and, to evidence such subrogation, (A) in the case of subrogation as to claims for past due interest, the Trustee shall note the 2001C Insurer's rights as subrogee on the registration books maintained by the Trustee upon receipt from the 2001C Insurer of proof of the payment of interest thereon to the Owners of such Certificates and (B) in the case of subrogation as to claims for past due principal, the Trustee shall note the 2001C Insurer's rights as subrogee on the registration books for the Certificates maintained by the Trustee upon receipt of proof of the payment of principal thereof to the Owners of such Certificates. Notwithstanding anything in this 1993A Trust Agreement or the Certificates to the contrary, the Trustee shall make payment of such past due interest and past due principal directly to the 2001C Insurer to the extent that the 2001C Insurer is a subrogee with respect thereto.

## INSTALLMENT SALE PAYMENTS

### Assignment of Installment Sale Payments

The Corporation, for good and valuable consideration, will unconditionally grant, transfer and assign to the Trustee without recourse all of its rights to receive the 1993A Installment Sale Payments for the benefit of the Owners of the Certificates and any and all of the other rights, title and interest of the Corporation in the 1993A Installment Sale Agreement, except the rights of the Corporation in indemnification from the District and its rights to receive payment of its fees, expenses and reimbursements, for the purpose of securing: (a) the payment of all sums due and owing to the Owners of the Certificates under the terms of the 1993A Trust Agreement; and (b) the observance, performance and discharge of each agreement, condition, covenant and term of the District contained in the 1993A Trust Agreement and in the 1993A Installment Sale Agreement.

All 1993A Installment Sale Payments shall be paid directly by the District to the Trustee, and all 1993A Installment Sale Payments received by the Trustee shall be held in trust by the Trustee for the benefit of the District until deposited in the funds, whereupon such money shall be held in trust in such funds by the Trustee for the benefit of the Owners. The District pledges and grants a lien on and a security interest to the Trustee in such moneys paid to the Trustee for the benefit of the Owners.

### Deposit of 1993A Installment Sale Payments

The Trustee shall establish a Prepaid Interest Account in the Debt Service Fund to be held separately from other monies in such fund. The Trustee shall hold in the Prepaid Interest Account the monies deposited therein pursuant to the 1993A Trust Agreement and utilize such monies to pay interest with respect to the Certificates prior to other monies in the Debt Service Fund until depleted. The Trustee shall deposit the 1993A Installment Sale Payments paid to it at the following respective times in the following respective funds in the manner hereinafter provided, each of which funds the Trustee has agreed to establish and maintain so long as

any Certificates are Outstanding, and the money in each of such funds shall be disbursed only for authorized purposes and uses; provided, that any money in such funds not required to pay the principal and interest and prepayment premiums, if any, evidenced and represented by the Certificates shall on the Business Day immediately following each Interest Payment Date be deposited first in the Debt Service Reserve Fund, to the extent money is needed therein for the balance therein to equal the Debt Service Reserve Fund Requirement, and second, if the District so directs in writing, in the Excess Investment Earnings Fund, and third, after the above deposits are completed, shall be transferred to the District for deposit by the District in the Water and Sewer Revenue Fund held under the Master Resolution:

(a) Debt Service Fund. The Trustee, on or prior to each Interest Payment Date, shall deposit in the Debt Service Fund that amount of money representing the portion of the 1993A Installment Sale Payments constituting the interest installment becoming due and payable on such Interest Payment Date. The Trustee, on or prior to each Certificate Payment Date, shall deposit in the Debt Service Fund that amount of money representing the portion of the 1993A Installment Sale Payments constituting the principal installment becoming due and payable on such Certificate Payment Date. All money in the Debt Service Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest evidenced and represented by the Certificates on their respective Interest Payment Dates and paying the principal evidenced and represented by the Certificates on their respective Certificate Payment Dates or on mandatory prepayment prior thereto.

(b) Prepayment Fund. The Trustee, at the time that any prepayment is paid to the Trustee pursuant to the 1993A Installment Sale Agreement, shall deposit in the Prepayment Fund the amount of such prepayment. All money in the Prepayment Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest and principal and prepayment premiums, if any, evidenced and represented by the Certificates to be prepaid on their respective prepayment dates.

#### COVENANTS

Compliance with 1993A Trust Agreement. The Trustee will not execute or deliver any Certificates in any manner other than in accordance with the provisions of the 1993A Trust Agreement; and neither the Corporation nor the District will suffer or permit any default by them to occur thereunder, but each will faithfully observe and perform all the agreements, conditions, covenants and terms contained therein required to be observed and performed by them.

Compliance with and Amendment of or Supplement to the 1993A Installment Sale Agreement and the Master Resolution. The Corporation and the District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the 1993A Installment Sale Agreement required to be observed and performed by them, and will enforce the 1993A Installment Sale Agreement against the other party thereto in accordance with its terms.

The Corporation and the District may amend or supplement the 1993A Installment Sale Agreement with the prior written consent of the Trustee, which consent shall be given only if, in the opinion of the Trustee (which opinion may be based upon an Opinion of Counsel or a Certificate of the District), such amendment or supplement is not materially adverse to the interests of the Owners, including, but not limited to, amendments or supplements (i) to add to the agreements and covenants of either party other agreements and covenants to be observed, or to surrender any right or power therein reserved to the District, or (ii) to cure, correct or supplement any ambiguous or defective provision contained therein, or (iii) to provide for the acceleration of the 1993A Installment Sale Payments as contemplated by the Master Resolution, or (iv) to resolve questions arising thereunder as the parties thereto may deem necessary or desirable and which do not materially adversely effect the interests of the Owners of the Certificates, or (v) to revise the 1993A Installment Sale Payments Schedule attached thereto as Exhibit A in connection with the execution and delivery of the 2001C Certificates, provided that the 2001C Certificates satisfy the criteria for incurring Refunding Parity Obligations set forth in the Master Resolution; provided, that the Trustee may consent to any amendment of or a

supplement to the 1993A Installment Sale Agreement if it first obtains the written consent of the Owners of at least a majority in aggregate principal amount of the Certificates then outstanding to such amendment or supplement, except that no such amendment or supplement shall reduce the principal or interest component of any 1993A Installment Sale Payment without the written consent of the Owner of each Certificate evidencing and representing an interest therein. The District will give notice of any such amendment to each rating agency then rating the Certificates.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Master Resolution required to be observed and performed by the District.

The District may modify, amend or supplement the Master Resolution with the prior written consent of the Trustee, which consent shall be given only if, in the opinion of the Trustee (which opinion may be based upon an Opinion of Counsel or a Certificate of the District), such amendment or supplement is not materially adverse to the interests of the Owners, including, but not limited to, modifications, amendments or supplements (i) to add to the agreements and covenants of the District other agreements and covenants to be observed, or to surrender any right or power therein reserved to the District, or (ii) to cure, correct or supplement any ambiguous or defective provision contained therein, or (iii) to provide for the acceleration of the Installment Sale Payments evidenced by the Certificates as contemplated by the Master Resolution, or (iv) to resolve questions arising thereunder as the District may deem necessary or desirable, and which do not materially adversely affect the interests of the Owners of the Certificates; provided, that the Trustee may consent to any modification or amendment of or supplement to the Master Resolution if it first obtains the written consent of the Owners of at least a majority in aggregate principal amount of the certificates then Outstanding to such modification, amendment or supplement. Notwithstanding any other provision of the 1993A Trust Agreement, the Trustee may consent to an amendment or supplement only if it receives an Opinion of Counsel that the exclusion from gross income of interest with respect to the Certificates will not be adversely affected for federal income tax purposes.

Tax Covenants. Notwithstanding any other provision of the 1993A Trust Agreement, absent an opinion of Special Counsel that the exclusion from gross income of the interest component of the 1993A Installment Sale Payments will not be adversely affected for federal income tax purposes, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The District will not take or omit to take any action or make any use of the proceeds of the Certificates or of any other monies or property which would cause the obligation represented by the Certificates to be a “private activity bond” within the meaning of Section 141 of the Code;

(b) Arbitrage. The District will make no use of the proceeds of the Certificates or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the obligation represented by the Certificates to be an “arbitrage bond” within the meaning of Section 148 of the Code;

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

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

(e) Miscellaneous. The District will take no action inconsistent with its expectations stated in the Tax Certificate and will comply with the covenants and requirements stated therein.

Prosecution and Defense of Suits. The District will defend against every action, suit or other proceeding at any time brought against the Trustee, the Corporation or any Owner upon any claim arising out of the receipt, deposit or disbursement of any of the 1993A Installment Sale Payments or involving any rights or obligations of the Trustee; provided, that the Trustee, the Corporation or any Owner at its or his election may appear in and defend any such action, suit or other proceeding. The District will indemnify and hold harmless the Trustee, the Corporation and the Owners against any and all liability claimed or asserted by any person arising out of any such receipt, deposit or disbursement, and will indemnify and hold harmless the Owners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation or otherwise in connection with the foregoing to which any of them may become a party in order to enforce their rights under the 1993A Trust Agreement or under the Certificates; provided, with respect to any such attorneys' fees or other expenses suffered by the Owners that such litigation shall be concluded favorably to such Owners' contentions therein.

Accounting Records and Statements. The Trustee shall keep proper books of record and account in accordance with trust accounting standards. Such records shall be open to inspection by the District and by any Owner at any reasonable time during regular business hours on reasonable notice. Not later than the fifteenth (15th) day of each month, for so long as any Certificates are Outstanding, the Trustee will furnish to the Corporation and to the District and to any Owner of at least \$1,000,000 in aggregate principal amount of the Certificates who may so reasonably request (at the expense of such Owner) a complete statement covering the receipts, deposits and disbursements of the funds held under the 1993A Trust Agreement for the preceding month.

#### DEFAULT AND LIMITATION OF LIABILITY

Action on Default. An event of default under the 1993A Installment Sale Agreement shall constitute a default under the 1993A Trust Agreement, and in each and every such case during the continuance of such Event of Default the Trustee, upon being provided with satisfactory indemnity, or the Owners of not less than a majority in aggregate principal amount evidenced and represented by the Certificates at the time Outstanding shall be entitled, upon notice in writing to the District and to the Corporation to exercise the remedies provided to the Corporation in the 1993A Installment Sale Agreement; provided, that nothing contained in the 1993A Trust Agreement shall affect or impair the right of action of any Owner to institute suit directly against the District to enforce payment of the obligation evidenced and represented by such Owner's Certificate; provided, further, that any payments made by the Insurer under the Insurance Policy shall not be deemed payments with respect to the Certificates for purposes of determining whether an Event of Default has occurred.

Other Remedies of the Trustee. The Trustee shall have the right –

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Corporation or the District or any director, officer or employee of the District, and to compel the Corporation or the District or any such director, officer or employee of the District to observe or perform its or his duties under applicable law and the agreements, conditions, covenants and terms contained in the 1993A Trust Agreement required to be observed or performed by it or him;

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

(c) by suit in equity upon the happening of any default under the 1993A Trust Agreement to require the Corporation and the District and the directors, officers and employees of the District to account as the trustee of an express trust.

Non-Waiver. A waiver of any default or breach of any obligation by the Trustee shall not affect any subsequent default or any subsequent breach of an obligation or impair any rights or remedies on any such subsequent default or on any such subsequent breach of an obligation. No delay or omission by the Trustee to



exercise any right or remedy accruing upon any default shall impair any such right or remedy or shall be construed to be a waiver of any such default or an acquiescence therein, and every right or remedy conferred upon the Trustee by applicable 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 or the Corporation or the District, then the Trustee, the Corporation 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. Nothing contained in the 1993A Trust Agreement or in the Certificates shall affect or impair the obligation of the District under the 1993A Installment Sale Agreement to pay the 1993A Installment Sale Payments when due as provided in the 1993A Installment Sale Agreement.

Application of Funds. All moneys received by the Trustee pursuant to any right given or action taken under the remedy provisions of the 1993A Trust Agreement or the 1993A Installment Sale Agreement shall be deposited in a segregated account and shall be applied by the Trustee, upon presentation of the several Certificates -

First, Costs and Expenses: to the payment of the costs and expenses of the Trustee (including the fees and expenses of its agents and counsel) and, after payment in full to the Trustee, of the Owners in declaring such Event of Default, including reasonable compensation to its or their agents, accountants and counsel;

Second, Interest: to the payment to the persons entitled thereto of all payments of interest evidenced and represented by the Certificates then due in the order of maturity of such payments, together with accrued and unpaid interest on Certificates theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any payment or payments of interest becoming due on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Third, Principal: to the payment to the persons entitled thereto of the unpaid principal evidenced and represented by any Certificates which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal evidenced and represented by the Certificates to be paid at a rate equal to the rate or rates of interest then applicable to the Certificates if paid in accordance with their terms, and, if the amount available shall not be sufficient to pay in full all the amounts due with respect to the Certificates on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

No Liability by the Corporation to the Owners. The Corporation shall not have any obligation or liability to the Owners with respect to the payment when due of the 1993A Installment Sale Payments by the District, or with respect to the observance or performance by the District of the other agreements, conditions, covenants and terms contained in the 1993A Installment Sale Agreement or 1993A Trust Agreement, or with respect to the performance by the Trustee of any obligation contained in the 1993A Trust Agreement required to be performed by it.

No Liability by the District to the Owners. Except for the payment when due of the 1993A Installment Sale Payments and the observance and performance of the other agreements, conditions, covenants and terms contained in the 1993A Installment Sale Agreement or 1993A Trust Agreement, the District shall not have any obligation or liability to the Owners with respect to the 1993A Trust Agreement or the preparation, execution, delivery, transfer, exchange or cancellation of the Certificates or the receipt, deposit or disbursement of the 1993A Installment Sale Payments by the Trustee, or with respect to the performance by the Trustee of any obligation contained in the 1993A Trust Agreement required to be performed by it.

No Liability by the Trustee to the Owners. Except as expressly provided in the 1993A Trust Agreement the Trustee shall not have any obligation or liability to the Owners with respect to the payment when due of the 1993A Installment Sale Payments by the District, or with respect to the observance or performance by the District of the other agreements, conditions, covenants and terms contained in the 1993A Installment Sale Agreement or in the 1993A Trust Agreement.

#### AMENDMENT OR SUPPLEMENT TO THE TRUST AGREEMENT

Amendment or Supplement to the 1993A Trust Agreement. The 1993A Trust Agreement and the rights and obligations of the Corporation and the District and Owners and the Trustee thereunder may be amended or supplemented at any time by an amendment or supplement which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding are filed with the Trustee. No such amendment or supplement shall (1) reduce the rate of interest evidenced and represented by any Certificate or extend the time of payment thereof or reduce the amount of principal or prepayment premium, if any, evidenced and represented by any Certificate or extend the Certificate Payment Date thereof or otherwise alter or impair the obligation of the District to pay the interest and principal and prepayment premium, if any, evidenced and represented thereby at the time and place and at the rate and in the currency and from the fund provided therein without the prior written consent of the Owner of the Certificate so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of amendments or supplements of the 1993A Trust Agreement or for the execution of amendments or supplements to the 1993A Installment Sale Agreement or the Master Resolution, or (3) modify any of the rights or obligations of the Trustee without its prior written consent thereto.

The 1993A Trust Agreement and the rights and obligations of the Corporation and the District and the Owners and the Trustee thereunder may also be amended or supplemented at any time by an amendment or supplement to the 1993A Trust Agreement which shall become binding upon execution without the written consents of any Owners, but only to the extent permitted by law and after receipt of any approving Opinion of Counsel and only if, in the opinion of the Trustee (which opinion may be based upon an Opinion of Counsel or a Certificate of the District), such amendment or supplement is not materially adverse to the interests of the Owners, including, but not limited to, amendments or supplements:

- (a) to add to the agreements, conditions, covenants and terms contained therein required to be observed or performed by the Corporation or the District other agreements, conditions, covenants and terms thereafter to be observed or performed by the Corporation or the District, or to surrender any right reserved therein to or conferred therein on the Corporation or the District, and which in either case shall not adversely affect the interests of the Owners;
- (b) to modify, amend or supplement the 1993A Trust Agreement in such manner as to preserve the exemption of the Certificates from the registration requirements of the Securities Act of 1933 or any similar federal statute hereafter in effect or to permit the qualification of the 1993A Trust Agreement under the Trust Indenture Act of 1939 or any similar federal statute in effect;
- (c) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained therein or in regard to questions arising thereunder which the Corporation or the District may deem desirable or necessary, and which shall not adversely affect the interests of the Owners;
- (d) to provide for the acceleration of the Certificates and the 1993A Installment Sale Payments represented thereby as contemplated by the Master Resolution;
- (e) to modify, amend or supplement the 1993A Trust Agreement to implement applicable provisions required by the Insurer in the event that the District elects to deposit an

insurance policy, a surety bond or a guaranty into the Debt Service Reserve Fund pursuant to the 1993A Trust Agreement; or

(f) to make any modifications or changes necessary or appropriate in the Opinion of Counsel to preserve or protect the exclusion from gross income for federal income tax purposes of interest evidenced and represented by the Certificates.

In determining whether any such amendment or supplement is not materially adverse to the interests of the Owners, the Trustee shall make its determination assuming that no Insurance Policy guarantees the payment of the principal and interest with respect to Certificates affected by any such amendment or supplement, unless any such amendment or supplement affects the rights and obligations of the Insurer or the Insurance Policy.

The Corporation and the District shall, unless otherwise waived by the Insurer, give written notice of any amendment to the Trust Agreement and the rights and obligations of the Corporation and the District and the Owners and the Trustee hereunder to Moody's and S&P not less than fifteen (15) days prior to the execution thereof.

### DEFEASANCE

#### Discharge of Certificates and 1993A Trust Agreement.

(a) If the Trustee shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Certificates the interest and principal and prepayment premiums, if any, evidenced and represented thereby at the times and in the manner provided therein and in the 1993A Trust Agreement, then all agreements and covenants of the Corporation and the District to such Owners under the 1993A Trust Agreements shall thereupon cease, terminate and become void and shall be completely discharged and satisfied.

(b) Any Outstanding Certificates shall on their Certificate Payment Dates or their dates of prepayment prior thereto be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) above if there shall be on deposit with the Trustee money held in trust for the benefit of the Owners of such Certificates which is sufficient to pay the interest and principal and prepayment premiums, if any, evidenced and represented by such Certificates payable on and prior to their Certificate Payment Dates or their dates of prepayment prior thereto.

(c) Any Outstanding Certificates shall prior to their Certificate Payment Dates or their date of prepayment prior thereto be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) above if (1) in case any of such Certificates are to be prepaid on any date prior to their Certificate Payment Dates, the District shall have given to the Trustee in form satisfactory to it irrevocable instructions to give notice by mail to the Owners of such Certificates of the prepayment of such Certificates on such prepayment dates, (2) there shall have been deposited with the Trustee either money in an amount which shall be sufficient, or Defeasance Securities, the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee, shall be sufficient (as evidenced by a report of an independent certified public accountant regarding such sufficiency) to pay when due the interest evidenced and represented by such Certificates on and prior to their Certificate Payment Dates or their dates of prepayment prior thereto, as the case may be, and the principal and prepayment premiums, if any, evidenced and represented by such Certificates, (3) in the event such Certificates are not by their terms subject to prepayment within the next succeeding sixty (60) days, the District shall have given the Trustee in form satisfactory to it irrevocable instructions to give notice by mail to the Owners of such Certificates that the deposit required by clause (2) above has been made with the Trustee and that such Certificates are deemed to have been paid in accordance with the provisions in the 1993A Trust

Agreement described and stating their Certificate Payment Dates or their dates of prepayment prior thereto upon which money is to be available for the payment of the interest and principal and prepayment premiums, if any, evidenced and represented by such Certificates, and (4) an Opinion of Counsel is filed with the Trustee to the effect that the action taken pursuant to the provisions described in the 1993A Trust Agreement will not cause the interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes.

Deposits and Investments. Any money held by the Trustee in any of the funds provided in the 1993A Trust Agreement, other than the Construction Fund, shall be deposited in time or demand deposits in any state or nationally chartered bank or trust company, including the Trustee, or a state or nationally chartered savings and loan association, and shall be secured at all times by such obligations as are required by law and to the fullest extent required by law; provided that any such money may be invested as directed by the District in Permitted Investments which will, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement.

Any interest or profits on such deposits and investments received by the Trustee shall, as and when received, be deposited first, if the District so directs, in the Excess Investment Earnings Fund, and second, after the above deposit is completed, shall be deposited in the Debt Service Reserve Fund so long as the balance therein is less than the Debt Service Reserve Fund Requirement and third, shall be transferred to the District for deposit in the Water and Sewer Revenue Fund held under the Master Resolution provided that earnings on the Construction Fund shall be deposited in such fund except as otherwise provided in the 1993A Trust Agreement; and for the purpose of determining the balance in the Debt Service Reserve Fund all investments in the Debt Service Reserve Fund shall be valued on July 1 of each year at the face value thereof if such investments mature within twelve (12) months from the date of valuation or if such investments are pursuant to a guaranteed investment contract, or if such investments mature more than twelve (12) months after the date of valuation and are not pursuant to a guaranteed investment contract, at the price at which such investments are redeemable by the holder at its option, if so redeemable, or if not so redeemable, at the lesser of (i) the cost of such investments plus the amortization of any premium or minus the amortization of any discount, or (ii) the market value of such investments.

All deposits of 1993A Installment Sale Payments made by the District with the Trustee prior to each Interest Payment Date or Certificate Payment Date pursuant to the 1993A Installment Sale Agreement shall be invested by the Trustee in Permitted Investments specified by the District and maturing not later than such Interest Payment Date or Certificate Payment Date, as the case may be, and the Trustee shall first deposit in the Debt Service Reserve Fund, to the extent money is needed therein for the balance therein to equal the Debt Service Reserve Fund Requirement, and second pay to the District, all earnings on such investment.

Any money held by the District in the Construction Fund shall be deposited in time or demand deposits in any state or nationally chartered bank or trust company, including the Trustee, or a state or nationally chartered savings and loan association, and shall be secured at all times by such obligation as are required by law and to the fullest extent required by law; provided, that any such money may be invested as determined by the District pursuant to a request of the District in Permitted Investments which will, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement; and, provided further, that not more than \$12,000,000 of the amount from time to time on deposit in the Construction Fund shall be invested in the types of obligations described in paragraph (iii) of the definition of Permitted Investments. Any interest or profits on such deposits and investments shall be retained in the Construction Fund.

## CONTINUING DISCLOSURE

### District Undertaking

The District has undertaken, for the benefit of the 2001C Holders, to provide or cause to be provided:

(a) to each Repository and to the State Information Depository, if any, no later than 180 days after the end of each Fiscal Year, commencing with the Fiscal Year ending June 30, 2001, the Annual Information relating to such Fiscal Year;

(b) if not submitted as part of or with the Annual Information, to each Repository and to the State Information Depository, if any, audited financial statements of the District when and if they become available; provided that if the financial statements of the District are not available in audited form by the date provided for in (a), the Annual Information shall contain unaudited financial statements of the District in a format similar to the audited financial statements most recently prepared for the District, and such audited financial statements of the District shall be filed in the same manner as the Annual Information when and if they become available; and

(c) to each Repository or to the MSRB and to the State Information Depository, if any, in a timely manner, notice of any of the following events with respect to the Certificates, if material:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Certificates;
- (7) Modifications to the rights of 2001C Holders;
- (8) Unscheduled redemption of Certificates;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Certificates; and
- (11) Rating changes; and

(d) to each Repository or to the MSRB and to the State Information Depository, if any, in a timely manner, notice of a failure to provide any Annual Information required by paragraphs (a) and (b), above, and described below under "Annual Information," "Incorporation by Reference," "Modifications" and "The Insurer." In connection with the foregoing, not later than 15 Business Days prior to the date specified in paragraph (a) the District shall provide the Annual Information to the Dissemination Agent. Promptly upon receipt of the Annual Information, the Dissemination Agent shall file the same with each Repository and the State Repository. If by 15 Business Days prior to the date specified in paragraph (a) for providing the Annual Information, the Dissemination Agent has not

received a copy of the Annual Information, the Dissemination Agent shall contact the District to determine if the District is in compliance with the requirements of paragraph (a). If the Dissemination Agent is unable to verify that the Annual Information has been provided to each Repository and the State Information Depository, if any, the Dissemination Agent shall notify each Repository or the MSRB and the State Information Depository, if any, of such findings.

Other Information. Nothing in the 1993A Trust Agreement shall be deemed to prevent the District from disseminating, or require the District to disseminate, any other information in addition to that required thereby in the manner set forth therein or in any other manner. If the District disseminates any such additional information, the District shall have no obligation to update such information or include it in any future materials disseminated thereunder.

Annual Information. The required Annual Information shall consist of:

(a) to the extent not included in (b) below, the annual financial statements described below hereof;

(b) updated versions of financial information and operating data relating to the District of the type contained in the Official Statement relating to the Certificates, under the following captions; provided, that such information shall be updated only for complete Fiscal Years, not for portions of Fiscal Years:

- (1) "INSTALLMENT SALES PAYMENT SCHEDULE";
- (2) "THE DISTRICT - Debt Structure of the District - General";
- (3) "HISTORICAL FINANCIAL OPERATIONS - Operating Revenues";
- (4) "HISTORICAL FINANCIAL OPERATIONS - Nonoperating Revenues";
- (5) "HISTORICAL FINANCIAL OPERATIONS - Historical Operating Results";
- (6) "HISTORICAL FINANCIAL OPERATIONS - Management Discussion of Operation"; and
- (7) "HISTORICAL FINANCIAL OPERATIONS - Comparative Results (first two paragraphs only)".

Incorporation by Reference. All or any portion of the Annual Information may be incorporated in the Annual Information by cross reference to any other documents which have been filed with (i) the Repositories, the State Information Depository and, if the document is an official statement, the MSRB or (ii) the Securities and Exchange Commission.

Modifications. Annual Information for any Fiscal Year containing any modified operating data or financial information (as contemplated in subsection (e) under the caption "Amendments" below) for such Fiscal Year shall explain, in narrative form, the reasons for such modification and the effect of such modification on the Annual Information being provided for such Fiscal Year. If a change in accounting principles is included in any such modification, such Annual Information shall present a comparison between the financial statements or information prepared on the basis of the modified accounting principles and those prepared on the basis of the former accounting principles.

The 2001C Insurer. If known to the District, the required Annual Information shall include the name, address and telephone number of a place where current information regarding the 2001C Insurer may be obtained.

Financial Statements. The District's annual financial statements for each Fiscal Year shall be prepared in accordance with GAAP. Such financial statements shall be audited by an independent accounting firm.

Remedies. If the District shall fail to comply with any provision relating to continuing disclosure, then any 2001C Holder may enforce against the District, for the equal benefit and protection of all 2001C Holders similarly situated, by mandamus or other suit or proceeding at law or in equity, the obligation to provide continuing disclosure as described in the 1993A Trust Agreement and may compel the District to perform and carry out its duties regarding continuing disclosure under the 1993A Trust Agreement; provided that such failure to comply with any continuing disclosure provision shall not be deemed an Event of Default under the 1993A Trust Agreement and that the sole and exclusive remedy for breach of any such provision shall be an action to compel specific performance of such obligations of the District and no person or entity shall be entitled to recover monetary damages thereunder under any circumstances, and, provided further, that any challenge to the adequacy of any information provided pursuant to such provisions shall be brought only by the 2001C Holders of 25% in aggregate principal amount of the Certificates at the time outstanding which are affected thereby.

Beneficiaries. The obligation to provide continuing disclosure as provided under the 1993A Trust Agreement is solely for the benefit of the 2001C Holders. No other person shall have any right to enforce such provisions thereof, or any other rights thereunder.

Amendments. Without the consent of any 2001C Holders, the District at any time and from time to time may amend or change the provisions regarding continuing disclosure for any of the following purposes:

- (a) to comply with or conform to any changes in Rule 15c2-12 (whether required or optional);
- (b) to replace the Dissemination Agent and to make any necessary or desirable provisions with respect thereto;
- (c) to evidence the succession of another person to the District and the assumption by any such successor of the covenants of the District under the continuing disclosure covenant;
- (d) to add to the covenants of the District for the benefit of the 2001C Holders, or to surrender any right or power therein conferred upon the District; and
- (e) to modify the contents, presentation and format of the Annual Information from time to time as a result of a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the District, or type of business conducted; provided that (i) the undertaking, as amended, would have complied with the requirements of Rule 15c2-12 at the time of the offering of the 2001C Certificates, after taking into account any amendments or authoritative interpretations of said Rule, as well as any change in circumstances; and (ii) the amendment or change does not materially impair the interests of 2001C Holders, as determined either by a party unaffiliated with the District (such as Special Counsel), or by the vote or consent of 2001C Holders of a majority in outstanding principal amount of the 2001C Certificates affected thereby at or prior to the time of such amendment or change.

Duration. The obligation to provide continuing disclosure under the 1993A Trust Agreement shall remain in full force and effect until such time as all principal, redemption premiums, if any, and interest with

respect to the Certificates shall have been paid in full or the Certificates shall have otherwise been paid or legally defeased pursuant to the 1993A Trust Agreement. Upon any such legal defeasance, the Dissemination Agent shall provide notice of such defeasance to each Repository, the State Information Depository and the MSRB. Such notice shall state whether the Certificates have been defeased to maturity or to redemption and the timing of such maturity or redemption.

### **C. SUMMARY OF CERTAIN PROVISIONS OF THE 1993A INSTALLMENT SALE AGREEMENT**

The following is a summary of certain provisions of the 1993A Installment Sale Agreement as amended and supplemented by the First Amendment to the 1993A Installment Sale Agreement (collectively, the "1993A Installment Sale Agreement"). This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the 1993A Installment Sale Agreement.

#### **THE 1993A PROJECT**

**Purchase and Sale of the 1993A Project.** The Corporation agrees to sell the 1993A Project to the District. In order to implement this provision, the Corporation appoints the District as its agent for the purpose of completing such design, acquisition and construction of the 1993A Project, as defined in the 1993A Installment Sales Agreement, and the District agrees to act as agent for the Corporation to provide for completing such design, acquisition and construction of the 1993A Project. The District agrees that as such agent it will cause the acquisition and construction of the 1993A Project to be diligently completed after the deposit of funds in the Construction Fund established pursuant to the 1993A Trust Agreement. The Corporation agrees to sell the 1993A Project to the District. The District agrees to purchase the 1993A Project from the Corporation.

#### **1993A INSTALLMENT SALE PAYMENTS**

**Purchase Price.** The principal amount of the Purchase Price to be paid by the District to the Corporation is thirteen million nine hundred eighty-five thousand dollars (\$13,985,000) and interest on the unpaid balance of the principal amount of the Purchase Price shall accrue: (i) in the case of the principal installments shown in Exhibit A to the 1993A Installment Sale Agreement under the heading "Remaining Original Principal Installments," the rates set forth in Exhibit A under the heading "Original 1993A Interest Rates" and (ii) in the case of the principal installments shown in Exhibit A under the heading "Additional 2001C Principal Installments," the rates shown in Exhibit A under the heading "2001C Interest Rates". In connection with the foregoing, the District acknowledges its obligation to make the Prepaid 2001C Installment Sale Payments; however such obligation has been defeased by amounts in an Escrow Fund which have been determined, together with interest earnings thereon to be sufficient to pay: (i) prior to and on July 1, 2003, the aggregate interest installments thereof and (ii) on July 1, 2003, the aggregate principal installments thereof and the prepayment premium applicable thereto.

**Payment of 1993A Installment Sale Payments.** The District shall, subject to the prepayment provisions of the 1993A Installment Sale Agreement, pay the Corporation the Purchase Price, without offset or deduction of any kind, by paying the principal installments of the 1993A Installment Sale Payments annually on July 1 in the amounts and in each of the years specified in the 1993A Installment Sale Agreement, together with interest installments of the 1993A Installment Sale Payments, which interest installments shall be paid semiannually in the amounts and on the interest payment dates specified in the 1993A Installment Sale Agreement.

The obligation of the District to pay the Purchase Price by paying the 1993A Installment Sale Payments from Net Water and Sewer Revenues is absolute and unconditional, and until such time as the 1993A Installment Sale Payments shall have been paid in full (or provision for the payment thereof shall have been made), the District will not discontinue or suspend any 1993A Installment Sale Payment required to be



paid by it when due, whether or not the Water and Sewer System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced, 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 to any agreement for any cause whatsoever.

In order to provide for the timely payment of the 1993A Installment Sale Payments, the District agrees and covenants that it will, from Net Water and Sewer Revenues on deposit in the Installment Sale Payment Fund held under the Master Resolution, on or before the Business Day immediately preceding each Interest Payment Date, deposit with the Trustee an amount equal to the interest installment of the 1993A Installment Sale Payments due on such Interest Payment Date, and, on or before the Business Day immediately preceding each Principal Payment Date, deposit with the Trustee an amount equal to the principal installment of the 1993A Installment Sale Payments due on such Principal Payment Date. In accordance with the 1993A Trust Agreement, amounts so deposited shall, until such Interest Payment Date or Principal Payment Date, as the case may be, be invested for the benefit of the District and all earnings on such investment shall, except as otherwise provided in the 1993A Trust Agreement, be paid to the District and deposited by the District in the Water and Sewer Revenue Fund held under the Master Resolution.

Debt Service Reserve Fund. If the District shall at any time receive notice from the Trustee that the amount of money on deposit in, or any insurance policy, surety bond or guaranty in lieu thereof in, the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement, the District agrees and covenants that it will, from Net Water and Sewer Revenues as provided in the Master Resolution, on or before the last Business Day immediately preceding the first day of each of the next twelve succeeding months, deposit with the Trustee an amount equal to one-twelfth (1/12) of the amount of the deficiency in the Debt Service Reserve Fund specified in such notice. To the extent the District is obligated to make a payment in respect of the Debt Service Reserve Fund Requirement, the District's 1993A Installment Sale Payment obligation shall be increased to provide a sufficient amount to make such payment.

#### COVENANTS OF THE DISTRICT

Pledge: Benefit of Master Resolution. To secure the prompt payment of the 1993A Installment Sale Payments, the District pledges its Net Water and Sewer Revenues and the amounts on deposit in or to the credit of the Installment Sale Payment Fund established and maintained under the Master Resolution; provided, that such pledge is not senior or superior to but is pari passu with, the pledge thereof to the payment of all other Parity Obligations incurred in accordance with the terms of the Master Resolution. The Corporation shall be a beneficiary of all of the obligations assumed by the District and the covenants made by the District in the Master Resolution. The District shall perform all the obligations assumed by the District under, and shall comply with all the covenants made by the District in, the Master Resolution. The District shall not modify, amend or supplement the Master Resolution except with the written consent of the Trustee as provided in the 1993A Trust Agreement.

Compliance with 1993A Installment Sale Agreement and 1993A Trust Agreement. The District will punctually pay the 1993A Installment Sale Payments in strict conformity with, and will faithfully observe and perform all the agreements, conditions, covenants and terms required to be observed and performed by the District pursuant to the 1993A Installment Sale Agreement, and will not terminate the 1993A Installment Sale Agreement for any cause including any acts or circumstances that may constitute failure of consideration, destruction of or damage to the 1993A Project or the Water and Sewer System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Corporation to observe or perform any agreement, condition, covenant or term required to be observed and performed by it pursuant to the 1993A Installment Sale Agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the 1993A Installment Sale Agreement 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, lockouts, 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 1993A Trust Agreement required to be observed and performed by it, and it is expressly understood and agreed by and among the parties to the 1993A Installment Sale Agreement and the 1993A Trust Agreement that each of the agreements, conditions, covenants and terms contained in each such agreement is an essential and material term of the obligation of the District to repay the costs of the acquisition and construction of the 1993A Project and the incidental costs and expenses paid by the Corporation pursuant to and in accordance with the 1993A Installment Sale Agreement.

Tax Covenants. The District will not directly or indirectly use or permit the use of the proceeds of the obligation provided in the 1993A Installment Sale Agreement or any other funds of the District or take or omit to take any action which would cause such obligation to be an “arbitrage bond” within the meaning of Section 148 of the Code, or a “federally guaranteed obligation” under Section 149(b) of the Code, or a “private activity bond” as described in Section 141 of the Code. To that end, so long as any 1993A Installment Sale Payment is unpaid, the District will comply with all requirements of such sections of the Code to the extent applicable to the obligation provided therein.

The District will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the interest installments of the 1993A Installment Sale Payments will not be included in the gross income of the owners of the Certificates for federal income tax purposes under the Code and will take no action that would result in such interest being so included.

Protection of Security and Rights of the Corporation and the Trustee. The District will preserve and protect the security and the rights of the Corporation and the Trustee to the 1993A Installment Sale Payments and will warrant and defend such rights against all claims and demands of all persons.

#### EVENTS OF DEFAULT AND REMEDIES

Events of Default. Each of the following events constitutes an Event of Default under the 1993A Installment Sale Agreement:

(a) the District shall default in the due and punctual payment of any 1993A Installment Sale Payment when and as the same shall become due and payable;

(b) the District shall default in the performance of any of the agreements or covenants contained in the 1993A Installment Sale Agreement required 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 the Trustee; and

(c) 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 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.

Remedies; No Acceleration. Upon the occurrence of an Event of Default the Trustee, as assignee of the Corporation, shall have the right --

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any member of the Board of Directors, officer or employee thereof, and to compel the District or any such member of the Board of Directors, officer, or employee to perform and carry out its or his duties under law and the agreements and covenants required to be performed by it or him under the 1993A Installment Sale Agreement;

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

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

Notwithstanding the above, the Trustee shall have no right to declare the principal or interest component of any 1993A Installment Sale Payment to be due and payable immediately.

### DISCHARGE OF OBLIGATIONS

#### Discharge of Obligations.

(a) If (1) the District shall pay or cause to be paid all the 1993A Installment Sale Payments at the times and in the manner provided in the 1993A Installment Sale Agreement, and (2) no Certificates remain Outstanding, the right, title and interest of the Corporation and the obligations of the District under the 1993A Installment Sale Agreement shall thereupon cease, terminate, become void and be completely discharged and satisfied, except only as provided in paragraph (c) below.

(b) Any unpaid principal installment of the 1993A Installment Sale Payments shall on its payment date or date of prepayment be deemed to have been paid within the meaning of and with the effect expressed in part (1) of paragraph (a) above if the District makes payment of such 1993A Installment Sale Payments and the prepayment premium, if applicable, in the manner provided in the 1993A Installment Sale Agreement.

(c) All or any portion of unpaid principal installments of the 1993A Installment Sale Payments shall, prior to their payment dates or dates of payment, be deemed to have been paid within the meaning of and with the effect expressed in part (1) of paragraph (a) above (except that the District shall remain liable for such 1993A Installment Sale Payments, but only out of such money or securities deposited with the Trustee for such payment), if (i) notice is provided by the District to the Trustee as required by the 1993A Trust Agreement, (ii) there shall have been deposited with the Trustee either money in an amount which shall be sufficient, or Defeasance Securities the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee, shall be sufficient to pay when due the principal installments of such 1993A Installment Sale Payments or such portions thereof on and prior to their payment dates or their dates of prepayment, as the case may be, and the prepayment premiums, if any, applicable thereto, and (iii) an opinion of nationally recognized bond counsel is filed with the Trustee to the effect that the action taken pursuant to this subsection will not cause the interest installments of the 1993A Installment Sale Payments to be includable in gross income under the Code for federal income tax purposes, and (iv) a report of an independent nationally recognized certified public accountant or a financial advisor or a financial consultant of recognized standing in the field of municipal bonds is filed with the Trustee to the effect that the amount of moneys and the principal of and interest when

due on the Defeasance Securities deposited at the same time with the Trustee shall be sufficient to pay when due the principal installments of such 1993A Installment Sale Payments or such portions thereof on and prior to their payment dates or their dates of prepayment, as the case may be, and the prepayment premiums, if any, applicable thereto.

#### MISCELLANEOUS

Liability of District Limited to Net Water and Sewer Revenues. The District is not required to advance any moneys derived from any source of income other than the Net Water and Sewer Revenues for the payment of 1993A Installment Sale Payments or for the performance of any agreements or covenants required to be performed by it contained in the 1993A Installment Sale Agreement. 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 1993A Installment Sale Payments is a special obligation of the District payment solely from the Net Water and Sewer Revenues, and does not constitute a debt of the District or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Assignment. The 1993A Installment Sale Agreement and any accompanying rights shall be assigned by the Corporation to the Trustee as provided in the 1993A Trust Agreement; to which assignment the District expressly acknowledges and consents.

Amendment. So long as the payment of the principal and interest with respect to any Certificates is guaranteed by the Insurer under the Insurance Policy and the Insurer is not in default under the Insurance Policy, any amendment to this 1993A Installment Sale Agreement shall be subject to the prior written consent of the Insurer and the Insurer shall receive a full transcript of all proceedings relating to the approval and execution of any such amendment.

## APPENDIX D

### BOOK-ENTRY-ONLY SYSTEM

*The following description of DTC and the procedures and record keeping with respect to beneficial ownership interests in the Certificates, payment of principal, interest, purchase price and other payments with respect to the Certificates to DTC Participants, Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such Certificates and other related transactions by and between DTC, the DTC Participants, the Indirect Participants and the Beneficial Owners is based solely on information provided by DTC, and the District assumes no responsibility therefor. Accordingly, no representations can be made concerning these matters and neither the DTC Participants, the Indirect Participants nor the Beneficial Owners should rely on the following information with respect to such matters but should instead confirm the same with DTC or the DTC Participants or the Indirect Participants, as the case may be.*

The Certificates will be delivered in fully registered form in the name of Cede & Co., as registered owner and nominee for DTC, which will act as securities depository for such Certificates. DTC is a limited-purpose trust company organized under the laws of the State of New York, 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, as amended. DTC was created to hold securities of its participants ("DTC Participants") and to facilitate the clearance and settlement of transactions, such as transfers and pledges, among DTC Participants in such securities through computerized book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom (and/or their representatives) own DTC. Access to the DTC system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly ("Indirect Participants").

Purchases of the Certificates under the DTC system must be made by or through DTC Participants, which will receive a credit balance for the Certificates in the records of DTC. The ownership interest of each actual purchaser of each Certificate (the "Beneficial Owner") will be recorded through the records of the DTC Participant. Beneficial Owners are expected to receive a written confirmation of their purchase providing details of the Certificates acquired. Transfers of ownership interests in the Certificates will be accomplished by book-entries made by DTC and, in turn, by the DTC Participants who act on behalf of the Beneficial Owners. **Beneficial Owners will not receive certificates representing their ownership interests in the Certificates.**

As long as Cede & Co. is the registered owner of the Certificates, as nominee of DTC, references herein to the owners of the Certificates or registered owners of the Certificates, except under the caption **TAX EXEMPTION**, shall mean Cede & Co. and shall not mean the Beneficial Owners of the Certificates.

The Trustee will recognize DTC or its nominee as the Certificate owner for all purposes, including notices and voting. Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time.

So long as the Certificates remain in book-entry-only form, principal and interest payments with respect to the Certificates will be made to DTC, or its nominee, Cede & Co. as registered owner of the Certificates. Upon receipt of moneys, DTC's current practice is to immediately credit the accounts of DTC Participants in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant or Indirect Participant and not of DTC, the District or the Trustee, subject to statutory and regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the District or the Trustee, disbursement of such payments to DTC Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of DTC Participants and Indirect Participants.

The Trustee cannot and does not give any assurance that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (i) payment of principal, purchase price and interest with respect to the Certificates held in book-entry form and (ii) notices sent to DTC or Cede & Co., its nominee, as the registered owner of such Certificates, or that they will do so on a timely basis or that DTC, DTC Participants or Indirect Participants will service and 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 "Procedures" of DTC to be followed in dealing with Participants are on file with DTC.

Neither DTC nor Cede & Co. will consent or vote with respect to the Certificates. Under its usual procedures, DTC will mail an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those DTC Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

For every transfer of the Certificates, the Beneficial Owner may be charged a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto.

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. The District may terminate its participation in the system of book entry transfers through DTC at any time. If the District replaces DTC, or the existing successor securities depository, with another qualified securities depository, a fully registered Certificate for each maturity, registered in the name of the successor or its nominee, shall be prepared. If the District fails to locate another qualified securities depository to replace DTC, or the existing securities depository, the book-entry-only system will be discontinued, and Certificates will be printed and delivered.

The District will not have any responsibility or obligation to DTC Participants or to any Beneficial Owner with respect to (i) the accuracy of any records maintained by DTC or any DTC Participant; (ii) the delivery of any notice that is permitted or required to be given to Beneficial Owners; (iii) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the Certificates; (iv) the payment by DTC or any DTC Participant of any amount with respect to the principal of, premium, if any, purchase price or interest due on the Certificates; or (v) any consent given or other action taken by DTC as Owner. 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 thereof.

APPENDIX E

FORM OF SPECIAL COUNSEL OPINION

[Closing Date]

Eastern Municipal Water District  
San Jacinto, California

*Re: Eastern Municipal Water District, Water and Sewer Revenue Refunding Certificates of Participation, Series 2001A, Water and Sewer Revenue Certificates of Participation, Series 2001B and Water and Sewer Revenue Refunding Certificates of Participation, Series 2001C*

Ladies and Gentlemen:

We have reviewed the Constitution and the laws of the State of California and certain proceedings taken by the Eastern Municipal Water District (the "District") in connection with the authorization, execution and delivery by the District of: (i) that certain Second Amendment to 1991A Installment Sale Agreement, dated as of April 1, 2001, by and between the Eastern Municipal Water District Facilities Corporation (the "Corporation") and the District (the "Second Amendment to 1991A Installment Sale Agreement"), which amends that certain 1991A Installment Sale Agreement, dated as of June 1, 1991, by and between the Corporation and the District as previously amended by the First Amendment to 1991A Installment Sale Agreement, dated as of April 1, 1997 (the "1991A Installment Sale Agreement" and, as so amended, the "Amended 1991A Installment Sale Agreement"); (ii) that certain 2001B Installment Sale Agreement, dated as of April 1, 2001, by and between the Corporation and the District (the "2001B Installment Sale Agreement"); and (iii) that certain First Amendment to 1993A Installment Sale Agreement, dated as of April 1, 2001, by and between the Corporation and the District (the "First Amendment to 1993A Installment Sale Agreement"), which amends that certain 1993A Installment Sale Agreement, dated as of May 1, 1993, by and between the Corporation and the District (the "1993A Installment Sale Agreement" and, as so amended, the "Amended 1993A Installment Sale Agreement" and, together with the Amended 1991A Installment Sale Agreement and the 2001B Installment Sale Agreement, the "Installment Sale Agreements"). We have also reviewed: (i) that certain Second Supplement to 1991A Trust Agreement, dated as of April 1, 2001, by and among U.S. Trust Company, National Association (the "Trustee"), the District and the Corporation (the "Second Supplement to 1991A Trust Agreement"), which supplements that certain Trust Agreement, dated as of June 1, 1991, by and among the Trustee, the Corporation and the District as previously supplemented by the First Supplement to 1991A Trust Agreement, dated as of April 1, 1997 (the "1991A Trust Agreement" and, as so supplemented, the "Supplemented 1991A Trust Agreement"); (ii) that certain Trust Agreement, dated as of April 1, 2001, by and among the District, the Corporation and the Trustee (the "2001B Trust Agreement"); (iii) that certain First Supplement to 1993A Trust Agreement, dated as of April 1, 2001, by and among the District, the Corporation and the Trustee (the "First Supplement to 1993A Trust Agreement"), which supplements that certain Trust Agreement, dated as of May 1, 1993, by and among the District, the Corporation and the Trustee (the "1993A Trust Agreement" and, as so supplemented, the "Supplemented 1993A Trust Agreement" and, together with the "Supplemented 1991A Trust Agreement" and the 2001B Trust Agreement, the "Trust Agreements"); and (iv) such other information and documents as we consider necessary to render this opinion.

Pursuant to the Supplemented 1991A Trust Agreement, the Trustee has agreed to execute and deliver certificates of participation (the "2001A Certificates") evidencing and representing interests of the registered owners of the 2001A Certificates, along with the registered owners of the outstanding certificates of participation executed and delivered pursuant to the Supplemented 1991A Trust Agreement, in 1991A Installment Payments (as defined in the Supplemented 1991A Trust Agreement) to be made by the District pursuant to the Amended 1991A Installment Sale Agreement. Pursuant to the 2001B Trust Agreement, the Trustee has agreed to execute and deliver certificates of participation (the "2001B Certificates") evidencing and representing interests of the registered owners of the 2001B Certificates in 2001B Installment Payments (as defined in the 2001B Trust Agreement) to be made by the District pursuant to the 2001B Installment Sale Agreement. Pursuant to the Supplemented 1993A Trust Agreement, the Trustee has agreed to execute and deliver certificates of participation (the "2001C Certificates" and, together with the 2001A Certificates and the 2001B Certificates, the "Certificates") evidencing and representing interests of the registered owners of the 2001C Certificates, along with the registered owners of the outstanding certificates of participation executed and delivered pursuant to the Supplemented 1993A Trust Agreement, in 1993A Installment Payments (as defined in the Supplemented 1993A Trust Agreement) to be made by the District pursuant to the Amended 1993A Installment Sale Agreement. The 1991A Installment Payments, the 2001B Installment Payments and the 1993A Installment Payments are collectively referred to herein as the "Installment Payments."

The Certificates are dated March 15, 2001 and mature on the dates and in the amounts set forth in the Trust Agreements. Interest due with respect to the Certificates is payable on the dates and at the rates per annum set forth in the Trust Agreements. The Certificates are subject to optional and mandatory prepayment prior to maturity in the manner and upon the terms set forth in the Trust Agreements.

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

1. Each of (a) the obligation of the District to pay 1991A Installment Payments under the Amended 1991A Installment Sale Agreement, (b) the obligation of the District to pay 2001B Installment Payments under the 2001B Installment Sale Agreement and (c) the obligation of the District to pay 1993A Installment Payments under the Amended 1993A Installment Sale Agreement is a valid and binding obligation payable from Net Water and Sewer Revenues, as defined in Resolution No. 2667 adopted by the District on March 20, 1991, as supplemented by Resolution No. 2667.1.

2. The Installment Sale Agreements and the Trust Agreements have been duly authorized, executed and delivered by the District and (assuming they constitute valid and binding agreements of the respective other parties thereto) constitute valid and binding agreements of the District enforceable in accordance with their terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other



similar laws affecting creditors' rights, by the application of equitable principles if equitable remedies are sought, and by the exercise of judicial discretion in appropriate cases.

3. Under existing statutes, regulations, rulings, and judicial decisions, the portion of each Installment Payment constituting interest paid by the District and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, we note that, with respect to corporations, the portion of the Installment Payments constituting interest may be included as an adjustment in the calculation of alternative minimum taxable income which may affect such corporation's alternative minimum tax liability.

4. The portion of each Installment Payment constituting interest is exempt from California personal income tax.

5. The difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificates of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Certificate constitutes original issue discount, and the amount of original issue discount that accrues to the owner of the Certificate is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

The opinions expressed herein as to the exclusion from gross income of the portions of each Installment Payment constituting interest and original issue discount are based upon certain representations of fact and certifications made by the District and others and are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the Certificates to assure that the portions of the Installment Payments constituting interest and original issue discount will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements might cause the portions of the Installment Payments constituting interest and original issue discount to be included in gross income for federal income tax purposes retroactive to the date of the execution and delivery of the Certificates. The District has covenanted to comply with all such requirements. We express no opinion regarding other tax consequences with respect to the Certificates.

We have not undertaken to review the Official Statement relating to the Certificates on behalf of the owners or beneficial owners of the Certificates, and we assume no responsibility to such owners or beneficial owners for the accuracy or completeness of the information contained therein.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Said opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof (including changes in the law); such actions or events might affect the value of a Certificate. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Trust Agreements and the Tax

Eastern Municipal Water District  
[Closing Date]  
Page Four

Certificate executed and delivered by the District on the date of this opinion permit certain actions to be taken or to be omitted if a favorable opinion of bond counsel is provided with respect thereto. No opinion is expressed herein as to the exclusion from gross income of interest with respect to the Certificates if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves.

Respectfully submitted,

Financial Guaranty Insurance  
 Company, doing business in California  
 as FGIC Insurance Company  
 115 Broadway  
 New York, NY 10006  
 (212) 312-3000  
 (800) 352-0001

A GE Capital Company

**Municipal Bond  
 New Issue Insurance Policy**

<b>Issuer:</b>	<b>Policy Number:</b>
	<b>Control Number:</b> 0010001
<b>Bonds:</b>	<b>Premium:</b>

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance  
Company, doing business in California  
as FGIC Insurance Company  
115 Broadway  
New York, NY 10006  
(212) 312-3000  
(800) 352-0001



A GE Capital Company

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## Municipal Bond New Issue Insurance Policy

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for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in full faith and belief to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

*Deborah M. Reif*

President

Effective Date:

Authorized Representative

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

*Quincy Brown*

Authorized Officer

Financial Guaranty Insurance  
Company, doing business in California  
as FGIC Insurance Company  
115 Broadway  
New York, NY 10006  
(212) 312-3000  
(800) 352-0001



A GE Capital Company

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## Endorsement To Financial Guaranty Insurance Company Insurance Policy

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**Policy Number:**

**Control Number:** 0010001

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It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

**President**

**Effective Date:**

**Authorized Representative**

**Acknowledged as of the Effective Date written above:**

**Authorized Officer**

**State Street Bank and Trust Company, N.A., as Fiscal Agent**

Financial Guaranty Insurance  
Company, doing business in California  
as FGIC Insurance Company  
115 Broadway  
New York, NY 10006  
(212) 312-3000  
(800) 352-0001



A GE Capital Company

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**Mandatory California State  
Amendatory Endorsement  
To Financial Guaranty Insurance Company  
Insurance Policy**

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**Policy Number:**

**Control Number:** 0010001

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The insurance provided by this Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

*Deborah M. Reif*

**President**

**Effective Date:**

**Authorized Representative**

**Acknowledged as of the Effective Date written above:**

*Quayson*

**Authorized Officer**

**State Street Bank and Trust Company, N.A., as Fiscal Agent**

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FGIC is a registered service mark used by Financial Guaranty Insurance Company under license from its parent company, FGIC Corporation.

Form E-0059 (10/93)

Financial Guaranty Insurance  
Company, doing business in California  
as FGIC Insurance Company  
115 Broadway  
New York, NY 10006  
(212) 312-3000  
(800) 352-0001



A GE Capital Company

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**Mandatory California State  
Amendatory Endorsement  
To Financial Guaranty Insurance Company  
Insurance Policy**

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**Policy Number:**

**Control Number:** 0010001

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Notwithstanding the terms and conditions in this Policy, it is further understood that there shall be no acceleration of payment due under such Policy unless such acceleration is at the sole option of Financial Guaranty.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

**President**

**Effective Date:**

**Authorized Representative**

**Acknowledged as of the Effective Date written above:**

**Authorized Officer**

**State Street Bank and Trust Company, N.A., as Fiscal Agent**







