

PRELIMINARY OFFICIAL STATEMENT DATED MAY 17, 2006

NEW ISSUE - BOOK-ENTRY ONLY

\$9,995,000\*

CARPINTERIA VALLEY WATER DISTRICT  
REFUNDING REVENUE CERTIFICATES OF PARTICIPATION, SERIES 2006A

**Dated: Date of Delivery**

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

The Certificates are being executed and delivered in fully registered form and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases will be made in denominations of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of the Certificates will not receive certificates representing their beneficial ownership in the Certificates but will receive credit balances on the books of their respective nominees. Interest evidenced by the Certificates is payable semiannually on January 1 and July 1 of each year, commencing January 1, 2007. Payment of the principal and interest with respect to the Certificates is to be made to Cede & Co., which is to disburse said payments to the beneficial owners of the Certificates through their nominees.

**The Certificates are subject to optional, mandatory and extraordinary prepayment, all as more fully described herein.**

The Certificates are being delivered to provide funds to refund the \$9,015,000 outstanding aggregate principal amount of the Revenue Certificates of Participation, Series 2000, maturing on or after July 1, 2011, to pay for the costs to reconstruct an existing well which serves the District, to purchase a surety bond for deposit in the Reserve Fund and to pay costs incurred in connection with the execution and delivery of the Certificates.

The Certificates are being delivered pursuant to the Trust Agreement, dated as of April 1, 2006, by and among the Carpinteria Valley Water District, the Carpinteria Valley Water District Financing Corporation and Union Bank of California, N.A., as trustee. The Certificates are payable solely from Installment Payments to be made by the District to the Corporation pursuant to the Installment Purchase Agreement, dated as of April 1, 2006, by and between the District and the Corporation. The obligation of the District to make the Installment Payments is a special obligation of the District payable solely from Net Revenues of the District's Water System. The Installment Payments are payable subordinate to the District's obligations to make payments (which payments constitute Operations and Maintenance Costs) with respect to a Water Supply Agreement, dated as of August 1, 1991, by and between the District and the Central Coast Water Authority, under the terms of which the District is currently expected to pay an average of approximately \$1,270,000 per annum of principal (and related interest) with respect to outstanding CCWA bonds and approximately \$1,430,000 per annum in fixed costs attributable to the Department of Water Resources. The obligation of the District to pay Installment Payments is payable from Net Revenues on a parity with the District's obligation to make payments on \$18,651,906 in aggregate principal amount of Contracts, all as more particularly described herein.

Payment of the principal and interest evidenced by the Certificates when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Certificates.

[AMBAC LOGO]

**THE OBLIGATION OF THE DISTRICT TO MAKE INSTALLMENT PAYMENTS PURSUANT TO THE INSTALLMENT PURCHASE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE DISTRICT TO MAKE THE INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM NET REVENUES DERIVED BY THE DISTRICT FROM THE OPERATION OF ITS WATER SYSTEM AFTER PAYING OPERATION AND MAINTENANCE COSTS AND DOES NOT CONSTITUTE A DEBT OF THE DISTRICT, THE CORPORATION, THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.**

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*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 certain representations and compliance with certain covenants and requirements described herein, the portion of each Installment 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 Payment constituting interest is exempt from State of California personal income tax. In addition, the difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificates of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to a 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. See the caption "TAX EXEMPTION" herein with respect to tax consequences with respect to the Certificates.*

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

**MATURITY SCHEDULE**

See inside front cover.

*The Certificates are offered when, as and if delivered and received by the Underwriter, subject to the approval as to the valid and binding nature of the Installment Purchase Agreement by Stradling Yocca Carlson & Rauth, a Professional Corporation, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by its counsel, Ballard Spahr Andrews & Ingersoll LLP, Salt Lake City, Utah, for the District by Price, Postel & Parma LLP, Santa Barbara, California, for the Corporation by Stradling Yocca Carlson & Rauth, a Professional Corporation, for the Trustee by its counsel and for the Certificate Insurer by its counsel. It is anticipated that the Certificates will be available for delivery to The Depository Trust Company or its agent on or about June \_\_, 2006.*

**Citigroup**

**Dated: May \_\_, 2006**

\* Preliminary, subject to change.

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND PRICES OR YIELDS**

**\$9,995,000\***

**CARPINTERIA VALLEY WATER DISTRICT  
REFUNDING REVENUE CERTIFICATES OF PARTICIPATION, SERIES 2006A**

<i>Maturity (July 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Price or Yield</i>
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\* Preliminary, subject to change.

No dealer, broker, salesperson or other person has been authorized by the District, the Corporation or the Underwriter to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such 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 any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Certificates shall under any circumstances create any implication that there has been no change in the affairs of the District, the Corporation or other matters described herein since the date hereof.

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT REFLECT NOT HISTORICAL FACTS BUT FORECASTS AND “FORWARD-LOOKING STATEMENTS.” NO ASSURANCE CAN BE GIVEN THAT THE FUTURE RESULTS DISCUSSED HEREIN WILL BE ACHIEVED, AND ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE FORECASTS DESCRIBED HEREIN. IN THIS RESPECT, THE WORDS “ESTIMATE,” “PROJECT,” “ANTICIPATE,” “EXPECT,” “INTEND,” “BELIEVE” AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

THE CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE CERTIFICATES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

THE DISTRICT MAINTAINS A WEBSITE, HOWEVER, THE INFORMATION PRESENTED ON SUCH WEBSITES IS NOT PART OF THIS OFFICIAL STATEMENT AND SHOULD NOT BE RELIED UPON IN MAKING AN INVESTMENT DECISION WITH RESPECT TO THE CERTIFICATES.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

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

This Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR

MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE CERTIFICATES TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

**CARPINTERIA VALLEY WATER DISTRICT**

**DISTRICT BOARD OF DIRECTORS**

Frederick Lemere, President  
June Van Wingerden, Vice President  
Robert R. Lieberknecht, Director  
Matthew T. Roberts, Director  
James W. Drain, Director

**DISTRICT STAFF**

Charles B. Hamilton, General Manager  
Norma Rosales, Business Manager

**GENERAL COUNSEL**

Price, Postel & Parma LLP  
Santa Barbara, California

**SPECIAL SERVICES**

**Special Counsel**

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

**Trustee**

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

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## SUMMARY STATEMENT

This summary is subject in all respects to the more complete information contained in this Official Statement, and the offering of the Certificates to potential investors is made only by means of the entire Official Statement.

Purpose. The Certificates are being executed and delivered to assist the Carpinteria Valley Water District to refund the \$9,015,000 outstanding aggregate principal amount of the Carpinteria Valley Water District Revenue Certificates of Participation, Series 2000, maturing on or after July 1, 2011, to pay for the costs to reconstruct an existing well which serves the District, to purchase a surety bond for deposit in the Reserve Fund, and to pay the costs incurred in connection with the execution and delivery of the Certificates, all as described in the Installment Purchase Agreement, dated as of April 1, 2006, to be entered into by and between the Carpinteria Valley Water District Financing Corporation and the District concurrently with the execution and delivery of the Certificates.

Security for the Certificates. The Certificates are payable from Installment Payments payable by the District pursuant to the Installment Purchase Agreement and amounts on deposit in certain funds and accounts established by the Trust Agreement. The obligation of the District to make Installment Payments is a special obligation of the District payable solely from the Net Revenues of its Water System remaining after payment of Operation and Maintenance Costs. The obligation of the District to pay Installment Payments is subordinate to the obligations of the District to make payments (which payments constitute Operations and Maintenance Costs) with respect to a Water Supply Agreement, dated as of August 1, 1991, by and between the District and the Central Coast Water Authority, under the terms of which the District is currently expected to pay an average of approximately \$1,270,000 per annum of principal (and related interest) with respect to outstanding CCWA bonds and approximately \$1,430,000 per annum in fixed costs attributable to the Department of Water Resources. The obligation of the District to pay Installment Payments is payable from Net Revenues on a parity with the obligation of the District to make payments on \$18,651,906 aggregate principal amount of Contracts, all as more particularly described herein.

The obligation of the District to make the Installment Payments under the Installment Purchase Agreement is absolute and unconditional, and until such time as all payments required thereunder shall have been paid in full (or provision for the payment thereof shall have been made as provided for in the Installment Purchase Agreement), the District will not discontinue or suspend any Installment Payments required to be made by it when due, whether or not its Water System or any part thereof is operating or operable, or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

The obligation of the District to make Installment Payments pursuant to the Installment Purchase Agreement does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. The obligation of the District to make the Installment Payments is a special obligation of the District payable solely from the Net Revenues derived by the District from the operation of its Water System after paying Operation and Maintenance Costs and does not constitute a debt of the District, the Corporation, the State of California or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Certificate Insurance. Concurrently with the execution and delivery of the Certificates, Ambac Assurance Corporation will issue a financial guaranty insurance policy for the Certificates. The Bond Insurance Policy unconditionally guarantees the payment of that portion of the principal and interest with respect to the Certificates which has become due for payment, but which is unpaid by reason of non-payment of Installment Payments by the District. In the event that Certificate Insurer were to become insolvent, any claims arising under the Bond Insurance Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Rate Covenant. The Installment Purchase Agreement will require the District, to the fullest extent permitted by law, to fix, prescribe and collect rates and charges for its Water Service which will be at least sufficient to yield during each Fiscal Year Net Revenues equal to 125% of Debt Service for such Fiscal Year, all as more particularly described herein.

Additional Indebtedness. The Installment Purchase Agreement does not permit the District to make any additional pledge of, or to place any additional lien, on the Net Revenues, or any portion thereof, which is senior to the pledge and lien securing the payment of the Installment Payments. The Installment Purchase Agreement does permit the District to incur Bonds or Contracts payable on a parity with the Installment Payments provided that certain conditions are satisfied as described herein. Nothing in the Installment Purchase Agreement precludes the District from entering into obligations which are Operation and Maintenance Costs and, therefore, payable from Revenues prior to the Installment Payments or from issuing any bonds or executing contracts the payments under which are payable from Net Revenues subordinate to Bonds or Contracts of the District.

Reserve Fund. A Reserve Fund Policy will be deposited in the Reserve Fund established under the Trust Agreement as security for the Certificates in an amount equal to \$\_\_\_\_\_. The Reserve Fund Policy provides that upon notice from the Trustee to the Certificate Insurer to the effect that insufficient amounts are on deposit with the Trustee to pay the principal of (at maturity or pursuant to mandatory prepayment requirements) and interest with respect to the Certificates, the Certificate Insurer will promptly deposit with the Trustee an amount sufficient to pay the principal of and interest with respect to the Certificates or the available amount of the Reserve Fund Policy, whichever is less.

Prepayment. The Certificates are subject to optional, mandatory and extraordinary prepayment, all as described herein.

The District. The District was formed in 1941. The District is located in the southern coastal portion of Santa Barbara County and has a population of approximately 18,500. The District currently provides water to approximately 3,747 municipal and industrial customers and approximately 424 agricultural customers. The District obtains approximately 60% of District water supplies from the Cachuma Project, obtains approximately 9% of District water supplies from the Central Coast Water Authority, and pumps approximately 31% of District water supplies from the local ground water basin, all as described herein.

**\$9,995,000\***  
**CARPINTERIA VALLEY WATER DISTRICT**  
**REFUNDING REVENUE CERTIFICATES OF PARTICIPATION, SERIES 2006A**

**INTRODUCTION**

This Official Statement, including the cover page and all appendices hereto, provides certain information concerning the sale and delivery of Carpinteria Valley Water District Refunding Revenue Certificates of Participation, Series 2006A (the "Certificates"). Descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed thereto in Appendix B hereto.

The Certificates represent the interests of the registered owners thereof (the "Owners") in Installment Payments (the "Installment Payments") payable by the Carpinteria Valley Water District (the "District") under an Installment Purchase Agreement, dated as of April 1, 2006 (the "Installment Purchase Agreement"), by and between the District and the Carpinteria Valley Water District Financing Corporation, a nonprofit public benefit corporation (the "Corporation"). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of April 1, 2006 (the "Trust Agreement"), by and among the District, the Corporation and Union Bank of California, N.A., Los Angeles, California, as trustee (the "Trustee"). Pursuant to an Assignment Agreement, dated as of April 1, 2006 (the "Assignment Agreement"), by and between the Corporation and the Trustee, the Corporation has assigned to the Trustee, for the benefit of the Owners of the Certificates, substantially all its rights under the Installment Purchase Agreement, including the Corporation's right to receive Installment Payments payable under the Installment Purchase Agreement and Corporation's rights to enforce payment by the District of such Installment Payments when due.

The Certificates are being executed and delivered to refund the \$9,015,000 outstanding aggregate principal amount of the Carpinteria Valley Water District Revenue Certificates of Participation, Series 2000, maturing on or after July 1, 2011 (the "Refunded 2000 Certificates"), to pay for the costs to reconstruct an existing well which serves the District (see the caption "THE PROJECT" herein), to purchase a debt service reserve fund surety bond (the "Reserve Fund Policy") for deposit in the Reserve Fund and to pay costs of issuance.

Concurrently with the execution and delivery of the Certificates, Ambac Assurance Corporation (the "Certificate Insurer") will issue its bond insurance policy (the "Bond Insurance Policy") guaranteeing the scheduled payment of principal and interest represented by of the Certificates when due. See the caption "CERTIFICATE INSURANCE." A copy of the form of the Bond Insurance Policy is set forth in Appendix D hereto.

The District regularly prepares a variety of reports, including audits, budgets and related documents. Any Certificate Owner may obtain a copy of such report, as available, from the District.

**THE PROJECT**

The District expects to apply approximately \$1,000,000 of Certificate proceeds to the reconstruction of the El Carro well. The District expects to take bids for the well in fiscal year 2007 and commence construction in fiscal year 2007. Reconstruction of the well is expected by

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\* Preliminary, subject to change.

approximately January 2008. All environmental approvals necessary to commence construction of the well will be complete prior to construction.

## **REFUNDING PLAN**

General. The Carpinteria Valley Water District Revenue Certificates of Participation, Series 2000 (the "Series 2000 Certificates"), are currently outstanding in the aggregate original principal amount of \$9,015,000 under a Trust Agreement dated as of May 1, 2000 (the "2000 Trust Agreement"), by and among the Corporation, the District and Union Bank of California, N.A., as trustee (the "2000 Trustee"). The Series 2000 Certificates are payable from installment payments made under an Installment Purchase Agreement dated as of May 1, 2000 (the "2000 Installment Purchase Agreement") by and between the District and the Corporation. The District plans to apply a portion of the proceeds of the Certificates to refund the Refunded 2000 Certificates. The Series 2000 Certificates maturing on and prior to July 1, 2010 are not being refunded (the "Nonrefunded Series 2000 Certificates").

Under an Escrow Agreement dated as of April 1, 2006, by and between the District and the 2000 Trustee (the "2000 Escrow Agreement"), the District will deliver a portion of the proceeds of the Certificates to the 2000 Trustee for deposit in the escrow fund established under the 2000 Escrow Agreement (the "2000 Escrow Fund"). Additionally, the District will transfer certain amounts relating to the Series 2000 Certificates to the 2000 Trustee for deposit in the 2000 Escrow Fund.

The 2000 Trustee will invest all amounts deposited in the 2000 Escrow Fund in the Federal Securities as set forth in the 2000 Escrow Agreement. From the maturing principal of the Federal Securities and related investment income and other moneys on deposit in the 2000 Escrow Fund, the 2000 Trustee will pay when due all interest with respect to the Refunded 2000 Certificates on and prior to July 1, 2010, and will pay the prepayment price of the Refunded 2000 Certificates maturing after July 1, 2010 on July 1, 2010.

Sufficiency of the deposits in the 2000 Escrow Fund for those purposes will be verified by Causey Demgen & Moore Inc. Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided in the 2000 Escrow Agreement, the Refunded 2000 Certificates will be defeased pursuant to the provisions of the 2000 Installment Purchase Agreement and the 2000 Trust Agreement under which the Refunded 2000 Certificates were delivered, as of the date of execution and delivery of the Certificates.

The amounts held and invested by the 2000 Trustee in the 2000 Escrow Fund are pledged solely to the payment of the Refunded Series 2000 Certificates. Neither the funds deposited in the 2000 Escrow Fund nor the interest on the invested funds will be available for the payments with respect to the Certificates.

Verification. Upon delivery of the Certificates, Causey Demgen & Moore Inc., a firm of independent public accountants, will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to them by the Underwriter relating to (a) the adequacy of the maturing principal of and interest on the Federal Securities, together with the cash to be concurrently deposited in the 2000 Escrow Fund to pay when due all interest with respect to the Refunded 2000 Certificates on or prior to July 1, 2010, and the prepayment price of the Refunded 2000 Certificates maturing after July 1, 2010 on July 1, 2010, and (b) the computations of yield of the Certificates and the Federal Securities which support Special

Counsel’s opinion that the interest on the Certificates is excluded from gross income for federal income tax purposes.

**ESTIMATED SOURCES AND USES OF FUNDS**

The following table sets forth the estimated sources and uses of funds in connection with the execution and delivery of the Certificates and the refunding of the Refunded 2000 Certificates (exclusive of original issue discount).

Sources:	Certificate Proceeds	\$
	Transfer from Series 2000 Certificates Funds and Accounts	
Uses:	Acquisition Fund	
	Escrow Fund	
	Delivery Cost Fund <sup>(1)</sup>	
	Underwriter’s Discount	\$ _____
		\$

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<sup>(1)</sup> Includes the certain legal, financing, rating agency and printing costs, as well as premiums with respect to the Bond Insurance Policy and the Reserve Fund Policy.

**THE CERTIFICATES**

**General Provisions**

The Certificates will be executed and delivered in the aggregate principal amount of \$9,995,000\*. The Certificates will bear interest from and be dated the date of initial execution and delivery, and will be payable upon maturity on the dates set forth on the inside front cover page hereof. Interest evidenced by the Certificates will be payable semiannually on January 1 and July 1 of each year, commencing January 1, 2007. Interest will be calculated at the rates set forth on the inside front cover page hereof and on the basis of a year of 360 days comprised of twelve 30 day months.

The Certificates will be delivered only in fully registered form and, when executed and 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 for the Certificates. Ownership interests in the Certificates may be purchased in book-entry form only in denominations of \$5,000 or any integral multiple thereof. See the caption “Book-Entry Only System” below and Appendix E attached hereto.

In the event the book-entry only system described below is discontinued, the principal evidenced by any Certificate will be payable by check or draft of the Trustee upon presentation and surrender thereof at maturity or upon prior prepayment at the office of the Trustee in Los Angeles, California (the “Office of the Trustee”). Such principal and interest shall be payable in lawful money of the United States of America.

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\* Preliminary, subject to change.

## **Book-Entry Only System**

One fully-registered Certificate will be executed and delivered for each maturity of the Certificates in the principal amount of the Certificates of such maturity. It will be registered in the name of Cede & Co. and will be deposited with DTC. As long as the ownership of the Certificates is registered in the name of Cede & Co., the term “Owner” as used in this Official Statement shall refer to Cede & Co. and not to the actual purchasers of the Certificates (the “Beneficial Owners”).

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Certificates will be printed and delivered and will be governed by the provisions of the Trust Agreement with respect to payment of principal and interest and rights of exchange and transfer.

*The District cannot and does not give any assurances that DTC participants or others will distribute payments with respect to the Certificates received by DTC or its nominee as the registered Owner, or any prepayment or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement. See Appendix E hereto for additional information concerning DTC.*

## **Transfers and Exchanges Upon Termination of Book-Entry Only System**

In the event the book-entry system described above is discontinued, the Certificates will be printed and delivered as provided in the Trust Agreement. Thereafter, any Certificate may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by such person’s duly authorized attorney, upon surrender of such Certificate at the Office of the Trustee accompanied by delivery of a duly executed instrument of transfer in a form approved by the Trustee. Upon the surrender of a Certificate for transfer, the Trustee is to execute and deliver a new Certificate or Certificates of the same maturity in the same principal amount. The Trustee may require the Certificate Owner requesting any such transfer to pay any tax or other governmental charge required to be paid in connection therewith.

Certificates may be exchanged at the Office of the Trustee for a like aggregate principal amount of Certificates of other authorized denominations of the same maturity. The Trustee may require the Certificate Owner requesting any such exchange to pay any tax or other governmental charge required to be paid in connection therewith.

The Trustee shall not be required to register the transfer of or to exchange any Certificate during the period in which the Trustee is selecting Certificates for prepayment or of any Certificate that has been selected for prepayment.

## **Prepayment**

Optional Prepayment. The Certificates are subject to prepayment at the option of the District and as directed by the District in whole at any time or in part on any January 1 or July 1 in integral multiples of \$5,000 from any source of funds, upon notice as provided herein, on or after July 1, 2016, at a prepayment price of the principal amount thereof plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

Mandatory Sinking Fund Prepayment. The Certificates with a stated maturity of July 1, 20\_\_ are subject to mandatory prepayment prior to such stated maturity in part (by lot) on each July 1 on and after July 1, 20\_\_ in integral multiples of \$5,000, solely from scheduled Installment Payments

paid by the District under the Installment Purchase Agreement, at a prepayment price of the principal amount thereof (together with accrued interest evidenced to the date fixed for prepayment), without premium, in accordance with the following schedule:

*Prepayment Date*  
*(July 1)*

*Principal Amount*

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† Final Maturity

Extraordinary Prepayment. The Certificates are subject to extraordinary prepayment, as a whole or in part on any date in the order of maturity as directed by the District and by lot within each maturity in integral multiples of \$5,000 from prepaid Installment Payments made by the District from Net Proceeds, upon the terms and conditions of, and as provided for in the Trust Agreement and the Installment Purchase Agreement, at a Prepayment Price equal to the principal amount thereof (together with interest accrued to such dated fixed for prepayment), without premium.

The Certificates are subject to extraordinary prepayment in part on the next January 1 or July 1 for which timely notice of prepayment can be given after the date on which the Trustee receives the statement of the District from proceeds transferred by the District from the Acquisition Fund in accordance with the Installment Purchase Agreement, in the order of maturity as directed by the District and by lot within each maturity in integral multiples of \$5,000 at a Prepayment Price of the principal amount thereof (together with interest accrued to such date fixed for prepayment), without premium.

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

### **Notice of Prepayment**

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

Each notice of prepayment shall state the date of notice, the prepayment date, the place or places of prepayment and the Prepayment Price, shall designate the maturities, CUSIP numbers, if any, and, if less than all Certificates of any such maturity are to be prepaid, the serial numbers of the Certificates of such maturity to be prepaid by giving the individual number of each Certificate or by stating that all Certificates between two stated numbers, both inclusive, have been called for prepayment and, in the case of Certificates to be prepaid in part only, the portion to be prepaid. Each such notice shall also state that on said date there will become due and payable on each of said Certificates the Prepayment Price thereof or of said specified portion of the principal represented thereby in the case of a Certificate to be prepaid in part only, and that (provided that moneys for prepayment have been deposited with the Trustee) from and after such prepayment date interest with respect thereto shall cease to accrue, and shall require that such Certificates be then surrendered to

the Trustee. Any defect in the notice or the mailing thereof will not affect the validity of the prepayment of any Certificate.

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

**Effect of Prepayment**

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

**DEBT SERVICE SCHEDULE**

Set forth below is a schedule of Series 2006A Installment Payments for each annual period ending on June 30 of the years indicated.

Fiscal Year Ending June 30	Series 2006A Principal	Series 2006A Interest	Contracts <sup>(1)</sup>	Total
2007			\$962,538	
2008			745,706	
2009			1,382,620	
2010			1,387,820	
2011			1,382,432	
2012			1,196,420	
2013			1,199,920	
2014			1,159,120	
2015			1,159,120	
2016			1,159,120	
2017			1,159,120	
2018			1,159,120	
2019			1,159,120	
2020			1,159,120	
2021			1,159,120	
2022			1,159,120	
2023			1,159,120	
2024			1,159,120	
2025			1,159,120	
2026			1,159,120	
2027			636,017	
2028			636,017	
2029			—	
2030			—	
2031			—	
2032			—	
2033			—	

<sup>(1)</sup> Contracts include the 2000 Installment Purchase Agreement, the DWR Joint Loan, the DWR Loan, and the Joint Participation Agreement, payments under which are payable from Net Revenues on parity with the Certificates. See the caption “THE DISTRICT—Outstanding Indebtedness.”

## SECURITY FOR THE CERTIFICATES

Each Certificate represents a direct, undivided fractional interest in Installment Payments to be made by the District under the Installment Purchase Agreement. The Corporation has assigned substantially all of its right, title and interest in the Installment Purchase Agreement to the Trustee pursuant to the Trust Agreement, for the benefit of the Owners of the Certificates, including its right to receive Installment Payments and its rights as may be necessary to enforce payment of the Installment Payments when due.

### **Limited Obligations Payable From Net Revenues**

All Revenues and all amounts on deposit in the Revenue Fund have been irrevocably pledged to the payment of the Installment Payments as provided in the Installment Purchase Agreement and the Revenues shall not be used for any other purpose while any of the Installment Payments remain unpaid; provided that out of the Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Installment Purchase Agreement. This pledge, together with the pledge created by all other Contracts and Bonds, shall constitute a first lien on Revenues and, subject to application of Revenues and all amounts on deposit therein as permitted in the Trust Agreement, the Revenue Fund.

The obligation of the District to pay Installment Payments is subordinate to the obligations of the District to make payments (which payments constitute Operations and Maintenance Costs) with respect to a Water Supply Agreement, dated as of August 1, 1991 (the "Water Supply Agreement"), by and between the District and the Central Coast Water Authority ("CCWA"), under the terms of which the District is currently expected to pay an average of approximately \$1,270,000 million per annum of principal (and related interest) with respect to outstanding CCWA bonds and approximately \$1,430,000 million per annum in fixed payments attributable to the Department of Water Resources.

The obligation of the District to pay Installment Payments is payable from Net Revenues on a parity with the obligation of the District to make payments (i) under the 2000 Installment Purchase Agreement which upon the execution and delivery of the Certificates, will be outstanding in the principal amount of \$825,000, (ii) with the obligation of the District to make payments under a joint loan contract dated March 19, 2004, by and between Department of Water Resources, the District, and the Montecito Water District currently outstanding in the aggregate principal amount of \$9,950,000 (the "DWR Joint Loan"), (iii) with the obligation of the District to make payments under a loan agreement dated February 9, 2004, by and between Department of Water Resources and the District currently outstanding in the principal amount of \$7,602,106 (the "DWR Loan"), and (iv) with the obligation of the District to make payments under a Joint Participation Agreement, dated as of June 1, 1993, and as amended by Amendment No. 1 to the Joint Participation Agreement dated April 1, 2004, by and between the District and the Cachuma Operation and Maintenance Board, currently outstanding in the principal amount of \$274,800 (the "COMB Joint Participation Agreement"). The obligation of the District to pay Installment Payments is senior to the unsecured obligation of the District to make payments under a financing agreement dated February 27, 2004, by and between the District and the City of Santa Barbara currently outstanding in the aggregate principal amount of \$3,580,170 (the "Cater Financing Agreement"). See the caption "THE DISTRICT — Outstanding Indebtedness."

In order to carry out and effectuate such pledge and lien, the District has agreed and covenanted that all Revenues shall be received by the District in trust and shall be deposited when and as received in a special fund designated as the "Revenue Fund," and which fund the District has agreed and covenanted to maintain and to hold separate and apart from other funds so long as any Contracts or Bonds remain unpaid. Moneys in the Revenue Fund shall be used and applied by the District as provided in the Installment Purchase Agreement.

Notwithstanding anything contained in the Installment Purchase Agreement, the District shall not be required to advance any moneys derived from any source of income other than the Revenues and the Revenue Fund for the payment of amounts due under the Installment Purchase Agreement or for the performance of any agreements or covenants required to be performed by it contained in the Installment Purchase 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 INSTALLMENT PAYMENTS PURSUANT TO THE INSTALLMENT PURCHASE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE DISTRICT TO MAKE THE INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM THE NET REVENUES DERIVED BY THE DISTRICT FROM THE OPERATION OF ITS WATER SYSTEM AFTER PAYING OPERATION AND MAINTENANCE COSTS AND DOES NOT CONSTITUTE A DEBT OF THE DISTRICT, THE CORPORATION, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

### **Rate Covenant**

The Installment Purchase Agreement requires the District, to the fullest extent permitted by law, to fix, prescribe and collect rates and charges for the Water Service which will be at least sufficient to yield during each Fiscal Year Net Revenues equal to one hundred twenty-five percent (125%) of Debt Service for such Fiscal Year. The District may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements described above.

### **Reserve Fund**

The Trust Agreement requires the establishment of a Reserve Fund Policy in an amount equal to \$\_\_\_\_\_. The Trust Agreement authorizes the District to obtain a Reserve Fund Policy in place of fully funding the Reserve Fund. Accordingly, application has been made to the Certificate Insurer for the issuance of a Reserve Fund Policy for the purpose of funding the Reserve Fund. The Certificates will only be delivered upon the issuance of such Reserve Fund Policy. The premium on the Reserve Fund Policy is to be fully paid at or prior to the issuance and delivery of the Certificates. The Reserve Fund Policy provides that upon the later of (i) one (1) day after receipt by the Certificate Insurer of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on the Certificates when due has not been made or (ii) the interest payment

date specified in the Demand for Payment submitted to the Certificate Insurer, the Certificate Insurer will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due on the Certificates, but in no event exceeding the Reserve Fund Coverage, as defined in the Reserve Fund Policy.

Pursuant to the terms of the Reserve Fund Policy, the Reserve Fund Coverage is automatically reduced to the extent of each payment made by the Certificate Insurer under the terms of the Reserve Fund Policy and the District is required to reimburse the Certificate Insurer for any draws under the Reserve Fund Policy with interest at a market rate. Upon such reimbursement, the Reserve Fund Policy is reinstated to the extent of each principal reimbursement up to but not exceeding the Reserve Fund Coverage. The reimbursement obligation of the District is subordinate to the District's obligations with respect to the Certificates.

In the event the amount on deposit, or credited to the Reserve Fund, exceeds the amount of the Reserve Fund Policy, any draw on the Reserve Fund Policy shall be made only after all the funds in the Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the Reserve Fund, in addition to the amount available under the Reserve Fund Policy, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Reserve Fund Policy and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency.

The Installment Purchase Agreement provides that the Reserve Fund shall be replenished in the following priority: (i) principal and interest on the Reserve Fund Policy shall be paid from first available Revenues; (ii) after all such amounts are paid in full, amounts necessary to fund the Reserve Fund to the required level, after taking into account the amounts available under the Reserve Fund Policy shall be deposited from next available Revenues.

The Reserve Fund Policy does not insure against nonpayment caused by the insolvency or negligence of the Trustee.

In the event that the Certificate Insurer were to become insolvent, any claims arising under the Reserve Fund Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

### **Additional Contracts and Bonds**

Under the Installment Purchase Agreement, the District may at any time execute any Contract or issue any Bonds, as the case may be, as described below:

(i) The Net Revenues for the most recent audited Fiscal Year preceding the date of adoption by the Board of Directors of the District of the resolution authorizing the issuance of such Bonds or the date of the execution of such Contract, as the case may be, as evidenced by both a calculation prepared by the District and a special report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant on such calculation on file with the District, shall have produced a sum equal to at least one hundred twenty-five percent (125%) of the Debt Service for such Fiscal Year; and

(ii) The Net Revenues for the most recent audited Fiscal Year preceding the date of the execution of such Contract or the date of adoption by the Board of Directors of the District of the

resolution authorizing the issuance of such Bonds, as the case may be, including adjustments to give effect as of the first day of such Fiscal Year to increases or decreases in rates and charges for the Water Service approved and in effect as of the date of calculation, as evidenced by both a calculation prepared by the District and a special report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant on such calculation on file with the District, shall have produced a sum equal to at least one hundred twenty-five percent (125%) of the Debt Service for such Fiscal Year plus the Debt Service which would have accrued on any Contracts executed or Bonds issued since the end of such Fiscal Year assuming such Contracts had been executed or Bonds had been issued at the beginning of such Fiscal Year plus the Debt Service which would have accrued had such Contract been executed or Bonds been issued at the beginning of such Fiscal Year; and

(iii) The estimated Net Revenues for the then current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted Project to be financed from proceeds of such Contracts or Bonds, as evidenced by a certificate of the General Manager of the District on file with the District, including (after giving effect to the completion of all such uncompleted Projects) an allowance for estimated Net Revenues for each of such Fiscal Years arising from any increase in the income, rents, fees, rates and charges estimated to be fixed, prescribed or received for Water Service and which are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by a certificate of the Manager on file with the District, shall produce a sum equal to at least one hundred twenty-five percent (125%) of the estimated Debt Service for each of such Fiscal Years, after giving effect to the execution of all Contracts and the issuance of all Bonds estimated to be required to be executed or issued to pay the costs of completing all uncompleted Projects within such Fiscal Years, assuming that all such Contracts and Bonds have maturities, interest rates and proportionate principal repayment provisions similar to the Contract last executed or then being executed or the Bonds last issued or then being issued for the purpose of acquiring and constructing any of such uncompleted Projects.

Nothing in the Installment Purchase Agreement precludes the District from entering into obligations which are Operation and Maintenance Costs and, therefore, payable from Revenues prior to the Installment Payments or from issuing any bonds or executing contracts the payments under which are payable from Net Revenues subordinate to Bonds or Contracts of the District.

### **CERTIFICATE INSURANCE**

*There follows under this caption certain information concerning the Certificate Insurer and the terms of the Bond Insurance Policy relating to the Certificates. The information contained under this caption has been supplied by the Certificate Insurer. No representation is made by the District or the Underwriter as to the accuracy or completeness of such information, or the absence of material adverse changes therein at any time subsequent to the date hereof.*

#### **Payment Pursuant to Bond Insurance Policy**

The Certificate Insurer has made a commitment to issue financial guaranty insurance policy relating to the Certificates effective as of the date of issuance of the Certificates. Under the terms of the Bond Insurance Policy, the Certificate Insurer will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal and interest evidenced by the Certificates which shall become Due for Payment but shall be unpaid by reason of

Nonpayment by the District (as such terms are defined in the Bond Insurance Policy). The Certificate Insurer will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which the Certificate Insurer shall have received notice of Nonpayment from the Trustee. The Bond Insurance Policy will extend for the term of the Certificates and, once issued, cannot be canceled by Certificate Insurer.

The Bond Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund prepayment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Certificates become subject to mandatory prepayment and insufficient funds are available for prepayment of all outstanding Certificates, the Certificate Insurer will remain obligated to pay principal and interest evidenced by the Certificates on the originally scheduled interest and principal payment dates including mandatory sinking fund prepayment dates. In the event of any acceleration of the principal, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal or interest evidenced by a Certificate which has become Due for Payment and which is made to a Certificate Owner by or on behalf of the District has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from the Certificate Insurer to the extent of such recovery if sufficient funds are not otherwise available.

The Bond Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Bond Insurance Policy. Specifically, the Bond Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for prepayment (other than mandatory sinking fund prepayment) or as a result of any other advancement of maturity.
2. payment of any prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee.

If it becomes necessary to call upon the Bond Insurance Policy, payment of principal requires surrender of Certificates to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Certificates to be registered in the name of Certificate Insurer to the extent of the payment under the Bond Insurance Policy. Payment of interest pursuant to the Bond Insurance Policy requires proof of Certificate Owner entitlement to interest payments and an appropriate assignment of the Certificate Owner's right to payment to the Certificate Insurer.

Upon payment of the insurance benefits, the Certificate Insurer will become the Owner of the Certificate, appurtenant coupon, if any, or right to payment of principal or interest evidenced by such Certificate and will be fully subrogated to the surrendering Certificate Owner's rights to payment.

In the event that Certificate Insurer were to become insolvent, any claims arising under the Bond Insurance Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

## **The Certificate Insurer**

The Certificate Insurer is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$9,417,000,000 (unaudited) and statutory capital of approximately \$5,879,000,000 (unaudited) as of March 31, 2006. Statutory capital consists of the Certificate Insurer's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to the Certificate Insurer.

The Certificate Insurer has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by the Certificate Insurer will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Certificate Insurer under policy provisions substantially identical to those contained in its bond insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the Certificates.

The Certificate Insurer makes no representation regarding the Certificates or the advisability of investing in the Certificates and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Certificate Insurer and presented under the caption "CERTIFICATE INSURANCE."

## **Available Information**

The parent company of the Certificate Insurer, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of the Certificate Insurer's financial statements prepared in accordance with statutory accounting standards are available from the Certificate Insurer. The address of Certificate Insurer's administrative offices and its telephone number are Ambac Assurance, One State Street Plaza, 19<sup>th</sup> Floor, New York, New York 10004 and (212) 668-0340.

## **Incorporation of Certain Documents by Reference**

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and filed on March 13, 2006;
2. The Company's Current Report on Form 8-K dated and filed on April 26, 2006; and
3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2006 and filed on May 10, 2006.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described under the caption "CERTIFICATE INSURANCE—Available Information."

## **THE DISTRICT**

### **General**

The District was incorporated on and has operated continuously since February 13, 1941, and operates under the County Water District Law, Division 12 of the State of California Water Code (the "Act"), for the purposes of furnishing water within the District. Effective July 1, 1996, the name of the District was changed from Carpinteria County Water District to Carpinteria Valley Water District, to eliminate the confusion associated with the word "County," and to more accurately reflect the service area of the District.

Since 1941, the District has acquired three different water companies, all within the boundaries of the District, in order to provide more reliable service to the customers of the District. The first water company to be acquired was the Shepard Mesa Mutual Water Company on February 8, 1955. Subsequently, Ocean Oaks Water Company was transferred to the District on July 6, 1957. The third and largest water company to be acquired was the Carpinteria Water Company which was first started in 1919 by Frank L. Stewart. At the time of purchase and transfer of the Carpinteria Water Company on July 1, 1964 to the District, active service connections of the District totaled approximately 1,600.

The District is located in the southern coastal portion of Santa Barbara County and includes the City of Carpinteria. The District has a population of approximately 18,500 and currently provides water to approximately 3,747 municipal and industrial customers and approximately 424 agricultural customers. The District obtains approximately 60% of District water supplies from the Cachuma Project (as described below), obtains approximately 9% of District water supplies from the CCWA Project Allotment (as described below), and pumps approximately 31% of District water supplies from the local groundwater basin. See the caption "THE DISTRICT – Water Supply" below.

### **Land and Land Use**

The service area of the District is bounded on the south by the Pacific Ocean (sea level) and on the north by the foothills of the Santa Ynez Mountains (elevation 1,200± feet). There are seven service zones within the District ranging from sea level to an elevation of 680 feet. The bulk of the District distribution system was installed in connection with the construction of the Cachuma Project and is a gravity fed system over a gently sloping terrain.

The District encompasses an area of approximately 11,321 acres, of which approximately 3,886 acres are currently used for agriculture, approximately 3,029 acres are developed for other use (about 43% as residential, 5% as commercial, 3% as industrial and 49% as public authority/other) and approximately 4,406 acres are currently undeveloped. The District expects that the undeveloped land within District boundaries will continue to be developed and that the estimated population of the District at buildout, which is projected in the year 2030, will be approximately 23,000.

**Governance and Management**

The District is governed by a five-member Board of Directors (the “Board”), the members of which are elected by the registered voters of the District to staggered four-year terms. The current directors, their occupations and the expiration dates of their terms are set forth below.

<i>Council Member</i>	<i>Expiration of Term</i>	<i>Occupation</i>
Frederick Lemere, President	November 2006	Retired President, Insurance Agency
June Van Wingerden, Vice President	November 2008	Grower, Ocean Breeze Int.
James W. Drain, Director	November 2006	President, DAC International
Robert R. Lieberknecht, Director	November 2008	Retired General Manager, Carpinteria Valley Water District
Matthew T. Roberts, Director	November 2006	Rancher and Director of Parks and Recreation for the City

**District Powers**

The District has broad general powers over the use of water within District boundaries, including the right of eminent domain and the authority to acquire, control, distribute, store, spread, sink, treat, purify, reclaim, process and salvage any water for beneficial use, to provide sewer service, to sell treated or untreated water, to contract with the United States, other political subdivisions, public utilities, and other persons, and, subject to certain constitutional limits, to levy taxes on lands.

**Employees and Employee Benefits**

The District currently employs 18 persons, of whom 11 work in engineering or administration, and 7 work in field operations. No employees of the District are currently represented by a union. In April 2006, however, non-exempt employees requested representation by the International Union of Operating Engineers.

Day-to-day management of the District is delegated to the General Manager and Secretary (the “General Manager”), Charles B. Hamilton. Mr. Hamilton has served as General Manager since May 1, 1995. Mr. Hamilton’s prior thirteen years of work experience in the water industry included seven years with Mesa Consolidated Water District (Costa Mesa), two years with Camrosa Water District (Camarillo) as Assistant General Manager, and four years with East Contra Costa Irrigation District (Brentwood) as General Manager. Prior to such water district experience Mr. Hamilton worked for seven years for the City of Boston and three years for the Pittsburgh Public Schools. Mr. Hamilton holds a Bachelor of Arts degree from Kalamazoo College, and a Master of Public and International Affairs degree from the University of Pittsburgh Graduate School of Public and International Affairs.

The District is a member of the California Public Employees' Retirement System ("PERS"), a multiple-employer pension system which provides a contributory defined-benefit pension plan for substantially all District employees. Required employer and employee contributions are determined from rates established by PERS based upon various actuarial assumptions which were last revised in 2004. The District currently contributes the PERS employee contribution. The normal pension costs of the District, which are determined by PERS using the actuarially determined rate, for fiscal years ended June 30, 2005 and 2004, were \$228,523 and \$96,025 respectively, which includes the contributions required by District employees made on their behalf and for their account by the District. As of June 30, 2004 the District's pension plan had an estimated unfunded liability of \$1,403,574.

The District provides, at no cost to District employees, medical, vision and dental insurance for all employees and dependents. Also, at no cost to the employee, a \$50,000 life insurance policy is provided for each employee, and a \$100,000 life insurance policy for the General Manager. There is no life insurance available for dependents.

The Governmental Accounting Standards Board recently published Statement No. 45, requiring governmental agencies that fund post-employment benefits on a pay-as-you-go basis, such as the District (beginning for the District with the fiscal year ending June 30, 2010), to account for and report the outstanding obligations and commitments related to such post-employment benefits in essentially the same manner as for pensions. The District has hired the certified public accounting Firm of Bartlett Pringle & Wolf, LLP to estimate the post employment benefits funding status of the District and does not expect that any increased funding of post- employment benefits will have a material adverse effect on the ability of the District to make payments under the Installment Purchase Agreement.

### **Budget Process**

Prior to June 1 of each year, the General Manager of the District submits to the Board of Directors a proposed budget for the upcoming fiscal year. The District generally conducts public workshops to obtain comments from residents and ratepayers. Subsequent to the workshops, the Board generally approves the budget prior to July 1.

The budget of the District is prepared on the accrual basis. For budgeting purposes, the District sets user charges to cover operating expenses of the particular services.

### **District Insurance**

The District maintains general, automobile and public officials' liability coverage through the Association of California Water Agency Joint Powers Insurance Authority ("ACWA/JPIA"), a non-capitalized risk sharing pool. ACWA/JPIA provides a total limit of \$40,000,000 per member per occurrence. ACWA/JPIA self-insures for the first \$500,000 per occurrence; with excess insurance limits of \$39,500,000: Insurance Company of the State of Pennsylvania ("ICOSP") provides \$4,500,000 in excess of \$500,000; ICOSP provides \$5,000,000 in excess of \$5,000,000; AIU Insurance Company provides \$20,000,000 in excess of \$10,000,000; and ICOSP provides \$10,000,000 in excess of \$30,000,000. The District self-insured retention under the liability program is \$5,000 per occurrence.

The District maintains property coverage through ACWA/JPIA. ACWA/JPIA provides a total limit of \$100,000,000 per occurrence. ACWA/JPIA self-insures for the first \$10,000 per occurrence. Property is covered up to replacement value with a \$1,000 deductible per occurrence on buildings, contents and fixed equipment; actual cash value with a \$1,000 deductible per occurrence on mobile equipment; and actual cash value with a \$500 deductible per occurrence on licensed vehicles.

The District has purchased employee dishonesty coverage through ACWA/JPIA from the Hartford Fire Insurance Company in the amount of \$50,000 per occurrence.

### **Outstanding Indebtedness**

The District has entered into the 2000 Installment Purchase Agreement to finance certain capital improvements to the water system of the District and the costs of improvements to certain facilities. Under the 2000 Installment Purchase Agreement, the District is obligated to make installment payments (the “2000 Installment Payments”) from Net Revenues from the Water System (as such term is defined in the 2000 Installment Purchase Agreement). Upon the execution and delivery of the Certificates, the 2000 Installment Purchase Agreement will be outstanding in the principal amount of \$825,000. Thereafter, under the 2000 Installment Purchase Agreement, the District is required to make 2000 Installment Payments ranging from approximately \$184,613 to \$395,536 with final payment due on July 1, 2010. The obligation of the District to make the remaining 2000 Installment Payments under the 2000 Installment Purchase Agreement from Revenues is on parity with obligation of the District to make payments under the Installment Purchase Agreement.

The District has an obligation to make payments to the Cachuma Operation and Maintenance Board (“COMB”) pursuant to the COMB Joint Participation Agreement. Under the terms of the COMB Joint Participation Agreement the District is required to pay COMB approximately \$35,000 in fiscal year ending June 30, 2007 and amounts ranging from approximately \$36,400 to \$43,900 per year thereafter with the final payment due on August 1, 2012. Amounts payable by the District under the COMB Joint Participation Agreement are payable from Revenues on a parity with amounts payable under the Installment Purchase Agreement.

The District and Montecito Water District executed the DWR Joint Loan with the Department of Water Resources for a loan of \$10,800,000 to fund the costs of covering of Ortega Reservoir. The DWR Joint Loan was increased to \$19,900,000 on August 18, 2005. The District’s share of the DWR Joint Loan is 50% or \$9,950,000. Annual payments on the DWR Joint Loan are approximately \$636,017 beginning in fiscal year 2009 with final payment due in January 2028. The obligation of the District to make payments under the DWR Joint Loan from Revenues is on a parity with the obligation of the District to make payments under the Installment Purchase Agreement.

The District executed the DWR Loan with the Department of Water Resources for an estimated loan principal amount of \$8,183,543 for the covering of Carpinteria Reservoir and new construction of the Headquarters Well, which replaced the Santa Ynez Well. The actual loan principal will be the sum of total loan disbursement. As of June 30, 2005, actual loan proceeds disbursed to the District totaled \$7,602,106. Based on an estimated loan balance of \$8,183,543 annual payments on the DWR Loan are estimated at approximately \$523,102 per year with the final payment due in January 2026. The obligation of the District to make payments under the DWR Loan

from Revenues is on parity with the obligation of the District to make payments under the Installment Purchase Agreement.

The District entered into the Cater Financing Agreement with the City of Santa Barbara for a 20% participation in a loan contract entered into by the City of Santa Barbara with the Department of Water Resources (the “Santa Barbara/DWR Loan Agreement”). The City of Santa Barbara applied the proceeds of the Santa Barbara/DWR Loan Agreement to certain improvements to the City of Santa Barbara Cater Water Filtration Plant which treats the District share of Cachuma Project and Authority water. The total principal amount of the Santa Barbara/DWR Loan Agreement for which the District is obligated under the Cater Financing Agreement was \$3,840,000. As of June 30, 2005, the principal obligation of the District under the Cater Financing Agreement was \$3,580,170. Annual payments due to the City of Santa Barbara by the District are approximately \$228,850 with final payment due on June 15, 2025. The obligation of the District to make payments to the City of Santa Barbara under the Cater Financing Agreement is an unsecured obligation of the District and is payable subordinate to the obligation of the District to make payments under the Installment Purchase Agreement.

### **Water Supply**

General. The District obtains approximately 60% of District water supplies from the Cachuma Project, obtains approximately 9% of District water supplies from the CCWA Project Allotment, and pumps approximately 31% of District water supplies from the local Carpinteria Basin.

Carpinteria Basin. The District owns five, and currently operates four, water wells which extract water from the Carpinteria Basin. Based on annual availability of other supplies the District pumps approximately 2,200 acre-feet of groundwater per year from the Carpinteria Basin. Entitlements to groundwater in the Carpinteria Basin have not been adjudicated. The District estimates the safe yield of the Carpinteria Basin to be approximately 5,000 acre-feet based on a 1986 study. Average annual private pumpage for the period from 1995 to 2003 is estimated to be 2,300 acre-feet. Private pumpage in fiscal year 2005 was estimated at 3,000 acre-feet.

The major groundwater pumpers in the Carpinteria Basin (other than the District), the approximate annual amount of acre-feet of groundwater pumped, and their respective percentages of the total annual amount of groundwater pumping for fiscal-ending June 30, 2005 are as follows:

<i>Pumper</i>	<i>Acre-Feet Per Year</i>	<i>Percentage of Total Groundwater Pumped</i>
Hilltop Farms	170	3.4%
Vedder	150	3.0
Parson	60	1.2
Hickey	50	1.0
Bailard	50	1.0

The District has a cooperative agreement with the United States Geological Survey to monitor monthly groundwater levels from about 35 private and District wells. The water level data and hydrographs provided pursuant to this agreement are included in the long-term data on water resources within the District and the Carpinteria Basin. The District also prepares an annual land use survey to determine water use and to estimate private pumpage.

Purchases of Water from the United States (the “Cachuma Project”). The United States of America (the “United States”) constructed the Cachuma Project on the Santa Ynez River and the District, along with others, purchases water therefrom pursuant to an agreement dated September 12, 1949 by and between the United States and the Santa Barbara County Water Agency (the “Agency”), which agreement is entitled “Contract For the Furnishing of Water to Member Units of Santa Barbara County Water Agency.” This contract is identified by the contract symbols and number I75r-1802 (the “Master Contract”). In said agreement, it is recited that the District, along with others, are “member units of the Agency.” In addition to the Master Contract between the United States and the Agency, the Agency also entered into separate contracts with each of its member units (the “Member Unit Contracts”), which member units were the District, City of Santa Barbara, Goleta Water District, Montecito Water District, Summerland Water District (now merged with Montecito Water District) and Santa Ynez River Water Conservation District.

The Member Unit Contracts were essentially the same, except for the name of the member unit and the amount of water to which each was entitled. The Member Unit Contract between the Agency and the District is dated September 12, 1949 and is entitled “Contract For the Furnishing of Water to the Carpinteria County Water District.” The amount of water to be furnished to each of the member units was set forth in both the Master Contract and the respective applicable Member Unit Contracts. The District was entitled to 3,300 acre feet of water per year, to the extent water and facilities were available and subject to the terms and conditions of the Master and Member Unit Contracts. The District also had the right to purchase additional water from the Bureau on an interim basis if such water was available.

The Cachuma Project, with the exception of that part thereof known as Bradbury Dam, is operated by the Cachuma Operation and Maintenance Board (“COMB”), a joint powers agency which was created under the laws of the State of California by an agreement of all of the member units. COMB is made up of a representative appointed from each of the member units. The operation of all but Bradbury Dam was transferred to the member units pursuant to a contract dated February 24, 1956 between the United States and the member units which is entitled “Contract For the Transfer of the Operation and Maintenance of the Cachuma Project.” This contract was amended and renewed in 2003.

The Master Contract and the Member Unit Contracts expired on May 15, 1995. Phase I Renewal Contracts were executed prior to that date, and were in effect until April 15, 1996. On April 14, 1996, a long term Renewal Master Contract was executed by the Agency, the United States and the Cachuma Operation and Maintenance Board, representing the District and also the City of Santa Barbara, the Montecito Water District (which by then had merged with the Summerland Water District), the Santa Ynez River Water Conservation District Improvement District #1 and the Goleta Water District (hereafter referred to as the “Member Units”). The Member Units and the Agency have also negotiated long-term Member Unit Contracts. The Member Units, the Agency and the Bureau have also completed an EIS/EIR for the long term Master Contract and Member Unit Contract renewals which found no significant adverse environmental impacts from contract renewal. In addition, the Member Units have agreed among themselves to reallocate Cachuma Master Contract payments in order to reduce the cost of irrigation water, and have negotiated an “Agreement Regarding Cachuma Project Water Rates and Administration” (“Water Rates Agreement”). The long term renewal Master Contract, Member Unit Contracts and Water Rates Agreement provide for continued water deliveries to the Member Units through September 30, 2020 with additional rights to renew at that time. According to an analysis done in conjunction with the Master Contract renewal, the price of water to the District under the Renewal Contract and the Water Rates Agreement is

\$96.74 per acre-foot for agricultural water and \$106.14 per acre-foot for municipal and industrial water. It is projected the District will receive, on a long-term average basis, 2,812 acre-feet of water per year from the Cachuma Project.

The District receives the water which it purchases pursuant to the Member Unit Contract from the United States' Cachuma Project. The Cachuma Project provides a supplemental supply of irrigation water to approximately 38,000 acres of land and a supply of municipal water to the District and certain other water purveyors located in the County. The water delivered through the Cachuma Project is captured by Bradbury Dam, which is located on the Santa Ynez River approximately 25 miles northwest of Santa Barbara and which stores flood waters of the Santa Ynez River which would otherwise flow to the ocean. The reservoir created by Bradbury Dam, Lake Cachuma, had an original capacity of 205,000 acre-feet. Lake Cachuma now has a capacity of approximately 188,000 acre-feet as a result of the accumulation of silt in the reservoir. Water is diverted from Lake Cachuma through the Tecolote Tunnel, which extends approximately 6.4 miles through the Santa Ynez Mountains to the headworks of the South Coast Conduit. The South Coast Conduit is a modified pre-stress concrete pipeline which runs a distance of approximately 26 miles and includes 4 regulating reservoirs — Glen Anne Dam and Reservoir with a capacity of 500 acre-feet (which is currently not in service pending additional seismic safety review), Lauro Dam and Reservoir, with a capacity of 590 acre-feet, Ortega Dam and Reservoir with a capacity of 60 acre-feet, and Carpinteria Reservoir with a capacity of 40 acre-feet.

Claims have been asserted in recent years that additional releases of water, other operational changes, or physical improvements are required below Bradbury Dam to meet requirements of the "public trust doctrine," the Federal Endangered Species Act, and/or California Fish and Game Code Section 5937. In response to those concerns, in 1993 a Technical Advisory Committee ("TAC") was formed to coordinate studies and facilitate discussion among the governmental agencies and other interested parties. The TAC includes representatives of the Bureau, U.S. Fish and Wildlife Service, DFG and the Cachuma member units. The TAC process has subsequently been incorporated in requirements for studies imposed on the Bureau and the Cachuma Member Units by the SWRCB pursuant to its Order WR 94-5.

In December 1994, the Bureau of Reclamation announced preliminary findings of seismic safety studies which it said showed a potential for failure of Bradbury Dam under certain seismic conditions. The Bureau of Reclamation initially indicated it would require a limitation on the operating level of the Dam which would have greatly reduced the available water supply while major seismic retrofits were constructed. Following further studies and the installation of dewatering wells, operating level restrictions have been lifted. Seismic retrofitting of the dam by the Bureau commenced in October of 1996 and was deemed substantially completed in September of 2001.

Limitation and release requirements on Cachuma Project operations, which may be imposed by the State Water Resources Control Board ("SWRCB"), may restrict the amount of water available to the District for the Cachuma Project. A SWRCB hearing occurred in 2003 to determine the Cachuma Project permit conditions and the operation of the Bureau of Reclamation facility. Those hearings addressed a biological opinion ("B.O.") by the National Marine Fisheries Service including downstream flow requirements and water releases to maintain and improve the habitat of the steelhead/rainbow trout recently listed as an endangered species, the Lower Santa Ynez River Fish Management Plan, Santa Ynez River Water Rights Settlement Agreement, Statement of Agreement with Santa Barbara County and Cachuma Project water supply and hydrology.

A subsequent Environmental Impact Report (“EIR”) by the SWRCB with respect to these matters was prepared in 2004. An amended EIR is currently being prepared by the SWRCB. Once the EIR is finalized, the SWRCB may hold an additional hearing and will render a decision on the Cachuma Project Operation permit. The potential effect of the SWRCB decision includes possible limitation or reduction of the yield of water available from the Cachuma Project up to as much as 20%. Such a condition would limit or reduce water supplies to the District to a level below the annual scheduled entitlement.

In accordance with the requirements of the NMFS Biological Opinion, the Lower Santa Ynez River Fish Management Plan (the “Fish Management Plan”) was adopted in October of 2000. The Fish Management Plan, when completed, will, among other things, provide for additional water to be impounded in the Cachuma Reservoir to provide for the required releases for fish habitat. COMB and the Bureau of Reclamation have prepared a draft Environmental Impact Report/Environmental Impact Statement (the “EIR/EIS”) to comply with state and federal law. The EIR/EIS is expected to be re-issued in late 2006.

CCWA Project Allotment. The District has contracted for a 2,000 acre-feet project allotment from the CCWA (the “CCWA Project Allotment”).

The Department of Water Resources and CCWA face various challenges in the continued supply of State Project Water to the District. A description of these challenges as well as a variety of other operating information with respect to the Department of Water Resources and CCWA is included in certain disclosure documents prepared by the Department of Water Resources and CCWA. The Department of Water Resources and CCWA have entered into certain continuing disclosure agreements pursuant to which the Department of Water Resources and CCWA are contractually obligated for the benefit of owners of certain of their outstanding obligations, to file certain annual reports, notices of certain material events as defined under Rule 15c2-12 of the Exchange Act (“Rule 15c2-12”) and annual audited financial statements. **NEITHER DEPARTMENT OF WATER RESOURCES NOR CCWA HAS ENTERED INTO A CONTRACTUAL COMMITMENT WITH THE DISTRICT, THE TRUSTEE OR THE OWNERS OF THE CERTIFICATES TO PROVIDE STATE WATER PROJECT INFORMATION TO THE DISTRICT OR THE OWNERS OF THE CERTIFICATES.**

**NEITHER DEPARTMENT OF WATER RESOURCES NOR CCWA HAS REVIEWED THIS OFFICIAL STATEMENT AND NEITHER HAVE MADE REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED OR INCORPORATED HEREIN, INCLUDING INFORMATION WITH REGARD TO DEPARTMENT OF WATER RESOURCES OR CCWA. NEITHER THE DEPARTMENT OF WATER RESOURCES OR CCWA ARE CONTRACTUALLY OBLIGATED, AND NEITHER HAS UNDERTAKEN, TO UPDATE SUCH STATE WATER PROJECT INFORMATION FOR THE BENEFIT OF THE DISTRICT OR THE OWNERS OF THE CERTIFICATES UNDER RULE 15C2-12.**

The Board has approved the sale of 400 acre-feet of CCWA Project Allotment to Plains Exploration in the form of an option agreement. However, the agreement has not yet been executed. There can be no assurances that the District will actually sell any CCWA Project Allotment to Plains Exploration. See the caption “THE DISTRICT — Outstanding Indebtedness” herein.

## The Water System

General. With the exception of mostly agricultural users who own approximately 100 private wells, the District is the sole provider of water service to water users within District boundaries. The water distribution system of the District includes over 75 miles of pipelines ranging in size from two inches to 20 inches in diameter. In connection with the District distribution system, the District operates four pumping stations which contain a total of six separate pumps.

The District operates a number of wells that extract groundwater from the local groundwater basin. This water is blended with the other water available to the District in order to provide the customers of the District with a satisfactory supply at the lowest possible cost. The District also maintains two reservoirs ranging in individual capacity from 500,000 gallons to 14.5 million gallons of water, and one elevated tank with a capacity of 50,000 gallons, for an overall storage capacity of 15.1 million gallons of water.

A portion of the distribution system of the District is owned by the Bureau pursuant to a loan entered into by the District in 1953. The loan has been discharged and the District anticipates obtaining title to such distribution facilities by June 2006.

Service Area. The District provides water service throughout the District which includes the City of Carpinteria. As of June 30, 2005 the District had approximately 3,747 domestic connections and approximately 424 agricultural connections, for a total of approximately 4,171 active water connections. Within the territory of the District, the District is the sole provider of water service to agricultural and domestic customers (excepting about 100 private wells).

Historic Water Connections and Sales Revenues. The following table shows the number of active water connections to the water system of the District for the five most recent fiscal years, together with the amount of its annual water sales revenues.

### *Historic Water Connections and Sales Revenues*

<i>Fiscal Year Ending June 30</i>	<i>Connections</i>			
	<i>Domestic</i>	<i>% Increase/ (Decrease)</i>	<i>Agriculture</i>	<i>% Increase/ (Decrease)</i>
2005	3,747	.08%	424	0%
2004	3,744	.24	424	(.24)
2003	3,735	.16	425	.24
2002	3,729	.18	424	0
2001	3,722	.21	424	.24%

  

<i>Fiscal Year Ending June 30</i>	<i>Sales Revenues</i>			
	<i>Domestic</i>	<i>% Increase/ (Decrease)</i>	<i>Agriculture</i>	<i>% Increase/ (Decrease)</i>
2005	\$5,541,460	14.02%	\$1,800,010	(16.31)%
2004	4,859,747	14.05	2,150,847	19.43
2003	4,260,876	4.44	1,800,991	(.43)
2002	4,079,548	9.41	1,808,704	6.39
2001	3,728,670	5.17	1,700,016	(10.40)

Source: District.

Historic Water Deliveries. The District records the volume of water delivered by the water system of the District. The following table presents a summary of historic water deliveries and the source of that water in acre-feet per year for the five most recent fiscal years.

*Historic Water Deliveries and Source of Water Delivered  
(In acre-feet per year)<sup>(1)</sup>*

<i>Deliveries</i>							
<i>Fiscal Year Ending June 30</i>	<i>Residential</i>	<i>Commercial</i>	<i>Public Authority</i>	<i>Industrial</i>	<i>Irrigation</i>	<i>Total</i>	<i>% Increase/ (Decrease)</i>
2005	1,588	381	120	126	1,871	4,086	(10.63)%
2004	1,745	412	142	133	2,140	4,572	9.25
2003	1,646	400	120	138	1,881	4,185	(3.52)
2002	1,688	398	129	128	1,995	4,338	4.83
2001	1,663	376	112	120	1,864	4,138	(10.43)

  

<i>Sources</i>				
<i>Fiscal Year Ending June 30</i>	<i>Groundwater</i>	<i>Cachuma Project</i>	<i>CCWA</i>	<i>Total</i>
2005	1,236	2,749	572	4,557
2004	783	3,553	328	4,664
2003	508	2,925	600	4,033
2002	298	3,950	0	4,248
2001	538	3,600	0	4,138

<sup>(1)</sup> Unaccounted water due to general system loss, including leakage, line flushing and fire hydrant testing, averages 3%, and is apportioned to all account types.

Source: District

**Management Discussion of Historic Water Connections, Sales Revenues and Deliveries**

The District has experienced an increase in domestic water connections averaging approximately .20% over the past five years. Sales revenues from domestic water sales have increased on average by 9% in each of the past five fiscal years due to increases in water usage rates and monthly service charges over the same time period. Sales revenues have fluctuated on a year-to-year basis however, depending on climatic conditions. While agricultural water connections have remained relatively stable, sales revenues from agriculture have fluctuated due to climactic conditions.

## Largest Customers

The following table sets forth the ten largest customers of the water system of the District as of June 30, 2005, as determined by the amount of their respective annual payments.

<i>Customer</i>	<i>Water Usage<sup>(1)</sup></i>	<i>Annual Payments</i>
Casitas Village HOA	25,490	\$ 206,275
Sandpiper Village	22,454	185,787
Villa Del Mar HOA	25,317	178,141
B& H Nursery	63,952	104,418
Cate School	31,797	102,701
Carpinteria School District	23,359	99,355
Francis L. Norman	35,027	60,361
Ocean Breeze	30,408	58,192
William Van Wingerden	25,454	46,774
Westerlay Roses	<u>24,129</u>	<u>42,544</u>
TOTAL:	307,387	\$ 1,084,547

<sup>(1)</sup> Hundred Cubic Feet.

Source: District.

These ten customers accounted for approximately 14.77% of water service revenues for the year ending June 30, 2005. Some of the largest customers of the District have, in recent years, obtained some water through groundwater pumping rather than purchasing water from the District.

## Water System Rates and Charges

General. The District is not subject to the jurisdiction of, or regulation by, the California Public Utilities Commission. The District annually determines the adequacy of the water system rate structure after full consideration of expected operations, maintenance and capital costs. The District currently sets water charges to pay water costs for purchased water, costs of groundwater pumping and current operating expenses for the water system. Capital improvements and debt service payments are funded from water charges and from connection fees.

Water Usage Rates and Monthly Service Charges. The District has two basic water charges. Each customer is charged a monthly service charge based on meter size. In addition to the monthly service charge, the District charges customers for water usage. A schedule of the current monthly service charges of the District is shown below:

<i>Meter Size</i>	<i>Monthly Service Charge</i>
5/8"	\$ 47.00
3/4"	47.00
1"	67.68
1 1/2"	119.35
2"	181.36
3"	346.72
4"	532.75
6"	1,049.52
8"	2,393.05

The District has separated customers into two classes of service for water usage rate purposes: domestic and agricultural. Domestic service is further separated into two types: 1) residential and 2) commercial, industrial and public authority. The District currently charges \$3.10 per hundred cubic feet ("HCF") for domestic-commercial, industrial and public authority, and \$1.52 HCF for agricultural. The District currently charges a tiered rate for domestic-residential as follows:

*Domestic Residential Tiered Rate*

<u>Units</u>	<u>Charge</u>
Up to 7 Units	\$ 2.38 HCF
8-14 Units	2.95 HCF
15 Units Plus	3.33 HCF

District staff currently projects increases of approximately 5% in water usage rates and approximately 11% in monthly service charges in fiscal year 2007. There can be no assurance that the increases will be implemented by the Board as projected by District staff. See the caption "THE DISTRICT — Projected Operating Results and Debt Service Coverage" herein.

Collection Procedures. The District is on a monthly billing cycle for all accounts. Bills are due and payable upon receipt. If bills are not paid within 15 days, a disconnect notice is sent indicating a date within 10 to 15 days before a door-tag is hung, which gives 48 hours notice that water will be shut off for non-payment. Accounts are not reconnected until the account is paid in full and a \$25.00 reconnect charge is paid.

Approximately 500 disconnect notices are sent out monthly for accounts that have not paid within 15 days, representing approximately 12% of those billed for that cycle. Accounts that are actually shut off for non-payment generally range from 8 to 12 accounts each month.

Connection Fees. The District charges for any new meter installation the cost of the new service and meter plus a “Capital Cost Recovery Fee.” The Capital Cost Recovery Fees range from \$4,283.37 to \$58,039.72 based on the size of the meter. The Capital Cost Recovery Fees were adopted by the Board of Directors on July 1, 2005 and are as follows:

<i>Meter Size</i>	<i>Capital Cost Recovery Fee</i>
5/8”	\$ 4,283.37
3/4”	5,769.48
1”	9,370.74
1 1/2”	18,375.64
2”	29,184.52
3”	58,039.72
8” and larger	Determined by General Manager

The District requires the Capital Cost Recovery Fee to be paid prior to accepting the installation fee deposit.

### **Future Water System Improvements**

The District currently expects to undertake approximately \$3 million of improvements to the Water System over the next five year period. Such improvements are expected to be funded with approximately \$2 million of revenues from the Capital Cost Recovery Fee and with approximately \$1 million of Certificate proceeds.

### **Projected Water Connections and Sales Revenues**

The following table shows the increase in the number of active water connections to the water system projected by the District for the current and next four fiscal years, together with the increase in the amount of its annual water sales revenues (exclusive of monthly service charges) projected by the District.

*Projected Water Connections and Sales Revenues*

<i>Fiscal Year Ending June 30</i>	<i>Connections</i>			<i>% Increase/ (Decrease)</i>
	<i>Domestic</i>	<i>% Increase/ (Decrease)</i>	<i>Agriculture</i>	
2006	3,781	.91%	424	0%
2007	3,803	.58	426	.47
2008	3,822	.50	428	.47
2009	3,841	.50	429	.23
2010	3,860	.50	430	.23

<i>Fiscal Year Ending June 30</i>	<i>Sales Revenues</i>			<i>Agriculture</i>	<i>% Increase/ (Decrease)</i>
	<i>Domestic</i>	<i>% Increase/ (Decrease)</i>			
2006	\$5,882,230	6.15%		\$2,194,859	21.94% <sup>(1)</sup>
2007	6,425,673	9.24		2,278,651	3.82
2008	7,202,658	12.09		2,436,396	6.92
2009	7,613,833	5.71		2,526,228	3.69
2010	7,535,264	(1.03)		2,603,307	3.05

<sup>(1)</sup> Increase attributable to cooler climatic conditions in fiscal year 2005, as well as implementation of rate increases in 2006.

Source: District.

### Projected Water Deliveries and Sources of Water Delivered

The District currently estimates that water system deliveries, and the source of water to be delivered, for the current and next four fiscal years will be as shown in the following tables.

#### *Projected Water Deliveries and Source of Water Delivered (In acre-feet per year)<sup>(1)</sup>*

<i>Fiscal Year Ending June 30</i>	<i>Deliveries</i>						<i>% Increase/ (Decrease)</i>
	<i>Residential</i>	<i>Commercial</i>	<i>Public Authority</i>	<i>Industrial</i>	<i>Irrigation</i>	<i>Total</i>	
2006	1,682	378	123	127	1,984	4,294	5.09%
2007	1,570	383	128	126	1,971	4,178	(2.70)
2008	1,573	381	127	126	1,972	4,179	.02
2009	1,574	382	126	127	1,972	4,181	.07
2010	1,574	384	127	126	1,979	4,190	.22

<i>Fiscal Year Ending June 30</i>	<i>Sources</i>				<i>Total</i>
	<i>Groundwater</i>	<i>Cachuma Project</i>	<i>CCWA</i>		
2006	2,400	2,800	2,000		7,200
2007	2,400	2,800	2,000		7,200
2008	2,400	2,800	2,000		7,200
2009	2,400	2,800	2,000		7,200
2010	2,400	2,800	1,600 <sup>(2)</sup>		6,800

<sup>(1)</sup> Unaccounted water due to general system loss, including leakage, line flushing and fire hydrant testing, averages 3%, and is apportioned to all account types.

<sup>(2)</sup> The decline in CCWA deliveries reflects a projected sale of 400 acre-feet of CCWA Project Allotment to Plains Exploration. See the caption "THE DISTRICT – Water Supply – CCWA Project Allotment."

Source: District.

The foregoing projections assume that mandatory water conservation measures such as those in place during prior droughts are not reinstated and that the property within the District continues to develop in accordance with the expectations of the District and certain other factors. In addition, the projections assume that the District will sell a portion of Project Allotment on an annual long-term basis effective in fiscal year 2010. In the event that actual experience varies from these assumptions, actual results may vary materially from the projections. See the caption "THE DISTRICT – Water Supply" above.

## **Management Discussion of Projected Water Connections, Sales Revenues and Water Deliveries**

The District has projected increases in water sales revenues in the next fiscal year, primarily as a result of projected increases in rates and charges. See the caption “THE DISTRICT – Water System Rates and Charges” above.

## **Water System Financial Information**

Financial Statements. Copies of the most recent audited financial statements of the District prepared by Bartlett, Pringle & Wolf, LLP, Santa Barbara, California (the “Auditor”) are attached as Appendix A hereto (the “Financial Statements”). The Auditor letters conclude that the audited financial statements present fairly, in all material respects, the financial position of the District as of June 30, 2005 and 2004, and the results of its operations and cash flows for the years then ended are in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller’s office and State regulations governing special districts.

## **Historic Operating Results and Debt Service Coverage**

The following table is a summary of operating results of the water system of the District for the last five fiscal years. These results have been derived from the financial statements of the District but exclude certain non-cash items and include certain other adjustments. The table has not been audited by the Auditor.

*Historic Operating Results & Debt Service Coverage*  
*Fiscal Year Ending June 30*

	2005	2004	2003	2002	2001
<b>Revenues</b>					
Water Sales <sup>(1)</sup>	\$8,059,964	\$6,749,961	\$5,856,867	\$5,695,867	\$5,243,109
Fire Protection	202,341	260,633	204,992	192,386	185,577
Capital Recovery Fees	53,680	82,511	34,832	45,621	118,469
Investment Income	84,544	65,304	263,632	519,269	1,015,081
Other <sup>(2)</sup>	<u>33,115</u>	<u>54,093</u>	<u>56,638</u>	<u>64,408</u>	<u>97,753</u>
<b>Total Revenues</b>	<b>\$8,433,644</b>	<b>\$7,212,502</b>	<b>\$6,416,961</b>	<b>\$6,517,551</b>	<b>\$6,659,989</b>
<b>Operation and Maintenance Costs</b>					
Source of Water Supply <sup>(3)</sup>	\$360,351	\$464,569	\$317,565	\$386,805	\$255,788
CCWA Source of Water Supply <sup>(4)</sup>	2,862,036	2,837,891	2,625,462	2,695,184	2,669,906
Pumping Expense	222,072	160,819	172,753	109,544	136,443
Water Treatment	607,970	717,857	692,647	682,232	605,388
Transportation and Distribution	536,247	474,238	458,129	463,621	451,613
Customer Accounting and Services	80,851	84,721	62,612	81,685	79,732
Cachuma Operating Expense	411,264	312,158	311,016	133,090	198,961
General and Administrative	<u>1,503,304</u>	<u>1,333,301</u>	<u>1,097,328</u>	<u>1,219,417</u>	<u>945,877</u>
<b>Total Expenses</b>	<b>\$6,584,095</b>	<b>\$6,385,554</b>	<b>\$5,737,512</b>	<b>\$5,771,578</b>	<b>\$5,342,868</b>
<b>Net Revenues</b>	<b>\$1,849,549</b>	<b>\$826,948</b>	<b>\$679,449</b>	<b>\$745,973</b>	<b>\$1,317,121</b>
<b>Parity Debt Service</b>					
2000 Installment Purchase Agreement	\$521,338	\$521,338	\$521,338	\$521,338	\$608,227
COMB Joint Participation Agreement <sup>(5)</sup>	29,900	219,149	217,659	215,534	212,794
DWR Joint Loan	—	—	—	—	—
DWR Loan	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Total</b>	<b>\$551,238</b>	<b>\$740,487</b>	<b>\$738,997</b>	<b>\$736,872</b>	<b>\$821,021</b>
<b>Coverage</b>	<b>3.36</b>	<b>1.12</b>	<b>.92</b>	<b>1.03</b>	<b>1.60</b>
<b>Other Debt Service</b>					
Cater Financing Agreement	\$228,850	—	—	—	—
<b>Balance Available for Capital Projects or Other Purposes</b>	<b>\$1,069,461</b>	<b>\$86,461</b>	<b>(\$59,548)</b>	<b>\$9,101</b>	<b>\$495,260</b>

**NOTES**

(1) Includes municipal and industrial water sales, agricultural water sales, and water service charge.

(2) Includes overhead charged to customers and FEMA reimbursements, and reimbursement under COMB Joint Participation Agreement.

(3) Other than CCWA Project Allotment.

(4) Includes all payments to CCWA under the Water Supply Agreement.

(5) Refinanced in fiscal year 2004.

Source: District.

## Projected Operating Results and Debt Service Coverage

The estimated projected operating results for the District water system for the current and next four fiscal years are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the estimate of projected financial results of the District based upon its judgment of the most probable occurrence of certain important future events. The assumptions set forth in the footnotes to the chart below are material in the development of the financial projections of the District, 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 and Debt Service Coverage Fiscal Year Ending June 30*

	2006	2007	2008	2009	2010
<b>Revenues</b>					
Municipal & Industrial Water Sales <sup>(1)</sup>	\$2,724,469	\$2,853,376	\$2,994,972	\$3,149,376	\$3,307,368
Agricultural Water Sales <sup>(1)</sup>	1,393,461	1,458,201	1,527,275	1,599,421	1,681,468
Water Service Charge <sup>(2)</sup>	4,759,086	5,198,790	5,990,445	6,052,599	6,048,419
Fire Protection	208,992	210,424	228,332	233,918	233,713
Capital Recovery Fees <sup>(3)</sup>	75,000	475,000	75,000	125,000	150,000
Investment Income	75,000	75,000	80,000	82,500	85,000
Other	27,000	17,000	15,000	16,000	15,500
Overhead Charges	<u>35,000</u>	<u>25,000</u>	<u>20,000</u>	<u>25,000</u>	<u>25,000</u>
<b>Total Revenues</b>	<b>\$9,298,009</b>	<b>\$10,312,791</b>	<b>\$10,931,024</b>	<b>\$11,283,814</b>	<b>\$11,546,468</b>
<b>Operation and Maintenance Costs</b>					
Source of Water Supply <sup>(4)</sup>	\$572,711	\$581,515	\$598,960	\$616,928	\$635,435
CCWA Source of Water Supply <sup>(5)</sup>	2,920,323	3,111,994	3,083,662	3,072,510	2,848,203
Pumping Expense <sup>(6)</sup>	276,750	328,967	338,836	349,001	359,471
Water Treatment <sup>(7)</sup>	584,147	620,443	639,056	658,227	677,973
Transportation and Distribution <sup>(7)</sup>	579,426	673,721	693,932	714,749	736,191
Customer Accounting and Services <sup>(7)</sup>	85,000	88,942	85,000	85,500	85,000
Cachuma Operating Expense <sup>(7)</sup>	532,613	541,481	557,725	574,456	591,689
General and Administrative	<u>1,712,637</u>	<u>1,736,844</u>	<u>1,788,949</u>	<u>1,842,617</u>	<u>1,897,895</u>
<b>Total Expenses</b>	<b>\$7,263,607</b>	<b>\$7,683,907</b>	<b>\$7,786,949</b>	<b>\$7,913,988</b>	<b>\$7,831,857</b>
<b>Net Revenues</b>	<b>\$2,034,402</b>	<b>\$2,628,884</b>	<b>\$3,144,075</b>	<b>\$3,369,826</b>	<b>\$3,714,611</b>
<b>Parity Debt Service</b>					
2006 Installment Purchase Agreement	—	251,724	493,219	491,156	493,994
2000 Installment Purchase Agreement	521,338	395,536	185,003	187,100	188,600
COMB Joint Participation Agreement	29,900	43,900	37,600	36,400	40,100
DWR Joint Loan	—	—	—	636,017	636,017
DWR Loan	<u>—</u>	<u>523,103</u>	<u>523,103</u>	<u>523,103</u>	<u>523,103</u>
<b>Total</b>	<b>\$551,238</b>	<b>\$1,214,262</b>	<b>\$1,238,925</b>	<b>\$1,873,776</b>	<b>\$1,881,814</b>
<b>Coverage</b>	<b>3.69</b>	<b>2.17</b>	<b>2.54</b>	<b>1.80</b>	<b>1.97</b>
<b>Other Debt Service</b>					
Cater Financing Agreement	\$228,850	\$228,850	\$228,850	\$228,850	\$228,850
<b>Balance Available for Capital Projects or Other Purposes</b>	<b>\$1,254,314</b>	<b>\$1,185,770</b>	<b>\$1,676,300</b>	<b>\$1,267,200</b>	<b>\$1,603,947</b>

## NOTES

- (1) Assumes water usage rates set forth under the caption “THE DISTRICT – Water System Rates and Charges,” projected water connections and sales revenues set forth under the caption of “THE DISTRICT – Projected Water Connections and Sales Revenues,” and projected water deliveries set forth under the caption of “THE DISTRICT – Projected Water Deliveries and Sources of Water Delivered.”
- (2) Assumes monthly services charges as set forth under the caption “THE DISTRICT – Water System Rates and Charges” and projected water connections set forth under the caption “THE DISTRICT – Projected Water Connections and Sales Revenues.” Service charge revenue predicted to decrease in 2010 due to sale of Project Allotment.
- (3) Assumes capital cost recovery fees as set forth under the caption “THE DISTRICT – Water System Rates and Charges” and projected water connections set forth under the caption “THE DISTRICT – Projected Water Connections and Sales Revenues.” Increase in capital cost recovery fee revenue in fiscal year 2007 is largely attributable to projected increases of approximately 100 new housing units.
- (4) Other than CCWA Project Allotment. Projected to increase by approximately 2.7% in fiscal years 2007-2010.
- (5) Based on current projections from the CCWA. Includes all payments made to CCWA under the Water Supply Agreement.
- (6) Projected to increase by approximately 3% in fiscal years 2008-2010. Projected increases are attributable to projected increases in groundwater pumping.
- (7) Projected to increase by approximately 3% in fiscal years 2008-2010.

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Source: District.

## CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

### Article XIII B

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

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

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

The District is of the opinion that its water charges do not exceed the costs it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B. The District has covenanted in the Installment Purchase Agreement that, to the fullest extent permitted by law, it will fix, prescribe and collect rates and charges sufficient to provide for payment of the Installment Payments in each year. See the caption “SECURITY FOR THE CERTIFICATES — Rate Covenant.”

### **Proposition 218**

General. An initiative measure entitled the “Right to Vote on Taxes Act” (the “Initiative”) was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIII C and Article XIII D to the California Constitution. According to the “Title and Summary” of the Initiative prepared by the California Attorney General, the Initiative limits “the Corporation of local governments to impose taxes and property-related assessments, fees and charges.”

Article XIII D. Article XIII D defines the terms “fee” and “charge” to mean “any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service.” A “property-related service” is defined as “a public service having a direct relationship to property ownership.” Article XIII D further provides that reliance by an agency on any parcel map (including an assessor’s parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

Article XIII D requires that any agency imposing or increasing any property-related fee or charge must provide written 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 with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, if and to the extent that a fee or charge imposed by a local government for water service is ultimately determined to be a “fee” or “charge” as defined in Article XIII D, the local government’s ability to increase such fee or charge may be limited by a majority protest.

In addition, Article XIII D includes a number of limitations applicable to existing fees and charges including provisions to the effect 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 owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

Based upon the California Second District Court of Appeal decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the California Supreme Court, it was generally believed that Article XIII D did not apply to charges for metered water, which had been held to be commodity charges related to consumption of the service, not property ownership. The District was of the opinion that, under similar reasoning, the water rates imposed by it were not subject to Article XIII D. In a decision rendered in February,

2004, the California Supreme Court in *Richmond et al. v. Shasta Community Services District* (S105078) upheld a Third District Court of Appeal decision that water connection fees were not property-related fees or charges subject to Article XIID while at the same time stating in dicta that fees for ongoing water service through an existing connection were property related fees and charges. In October 2004, the California Supreme Court granted review of the decision of the Fourth District Court of Appeal in *Bighorn-Desert View Water Agency v. Beringson*, 120 Cal. App. 4th 891 (2004), in which the appellate court had relied on *Howard Jarvis Taxpayers Association v. City of Los Angeles* and rejected the Supreme Court's dicta in *Richmond et al. v. Shasta Community Services District*. On March 23, 2005, the California Fifth District Court of Appeal held that an "in lieu" fee which is payable to the City of Fresno's general fund from its water utility and which is included in the city's water rate structure was invalid. In reaching its decision, the court concluded that the city's water rates were "property related" fees, governed by the limitations of Article XIID. Nonetheless, the District does not believe that any future fees and charges are subject to the notice and protest provisions of Proposition 218.

Article XIIC. Article XIIC provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. The terms "fee" and "charge" are defined in Article XIID as a levy imposed by an agency upon a parcel or upon a person as an incident of property ownership, ("property-related charges"), which has been held not to include consumption-based water rates. However, a recent lawsuit raised the issue of whether the initiative provisions of Article XIIC were limited to property-related charges as defined in Article XIID or could be used to challenge other local agency charges not subject to Proposition 218. The Court of Appeal for the Fourth District held that the definition of fee and charge in Article XIID applied to the initiative provision of Article XIIC which was part of the same voter-approved initiative (*Bighorn-Desert View Water Agency v. Beringson* (2004) 114 Cal. App. 4th 1213). Therefore, the initiative provisions of Article XIIC §3 would not be applicable to the water rates charged by the District. The appellants have requested Supreme Court review of the *Bighorn-Desert View* decision, but no decision has been made whether to grant the request for review at this time. The District and its general counsel do not believe that Article XIII C grants to the voters within the District the power to repeal or reduce rates and charges in a manner which would be inconsistent with the contractual obligations of the District. However, there can be no assurance of the availability of particular remedies adequate to protect the beneficial owners of the Certificates. Remedies available to beneficial owners of the Certificates in the event of a default by the District are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations with respect to the Certificates, the Trust Agreement and the Installment Purchase Agreement are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Special Counsel (the form of which is attached as Appendix C), will be similarly qualified.

## **Future Initiatives**

Articles XIII B, XIII C and XIII D were adopted as a measure that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the District's revenues or ability to increase revenues.

## **THE CORPORATION**

The Carpinteria Valley Water District Financing Corporation is a nonprofit public benefit corporation, formed on April 12, 2000 for the purpose of providing assistance to public agencies in financing, refinancing, acquiring, constructing and rehabilitating of facilities, land and equipment, and in the sale or leasing of facilities, land and equipment for the use, benefit and enjoyment of the public served by such agencies or any other purpose incidental thereto. The members of the Board of Directors of the Corporation are the members of the Board of Directors of the District.

## **APPROVAL OF LEGAL PROCEEDINGS**

The legality and enforceability of the Installment Purchase Agreement and certain other legal matters are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, acting as Special Counsel. Certain legal matters will be passed upon for the District by Price, Postel & Parma LLP, Santa Barbara, California, for the Corporation by Stradling Yocca Carlson & Rauth, a Professional Corporation, for the Underwriter by its counsel, Ballard Spahr Andrews & Ingersoll LLP, Salt Lake City, Utah, for the Trustee by its counsel, and for the Certificate Insurer by its counsel.

## **LITIGATION**

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the District, threatened against the District affecting the existence of the District or the titles of its board members or officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the Certificates, the application of the proceeds thereof in accordance with the Trust Agreement, or in any way contesting or affecting the validity or enforceability of the Certificates, the Trust Agreement, the Installment Purchase Agreement, or any action of the District contemplated by any of said documents, or contesting or affecting the collection of System Revenues, or which would have a material adverse effect on the Water System or the District's ability to pay the Installment Payments, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the District or its Corporation with respect to the Certificates or any action of the District contemplated by any of said documents, nor to the knowledge of the District, is there any basis therefor.

## **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 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 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 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 a maturity is to be sold to the public) and the stated redemption price at maturity with respect to a 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.

Special Counsel's opinion as to the exclusion from gross income of the portion of each Installment 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 portion of each Installment 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 portion of each Installment 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.

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

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

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

the portion of the Installment 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 (and original issue discount) with respect to the Certificates may otherwise affect the tax liability of certain persons. 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.

### **CONTINUING DISCLOSURE**

The District has covenanted in a Continuing Disclosure Certificate for the benefit of the holders and beneficial owners of the Certificates to provide certain financial information and operating data relating to the District by 270 days following the end of the District's Fiscal Year (currently its Fiscal Year ends on June 30) (the "Annual Report"), commencing with the report for Fiscal Year ending June 30, 2006, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed by the District with each Repository identified in the Continuing Disclosure Certificate. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in Appendix F — "FORM OF CONTINUING DISCLOSURE CERTIFICATE" hereto. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934. The District has not previously entered into any other continuing disclosure undertaking.

### **RATING**

Upon the issuance by the Certificate Insurer of its Bond Insurance Policy, Standard & Poor's Ratings Group ("S&P") is expected to assign the Certificates a rating of "AAA". Such rating is based upon the Bond Insurance Policy. See the caption "CERTIFICATE INSURANCE" herein. Generally, a rating agency bases its rating on information and material furnished directly to it and on investigations, studies and assumptions made by it. The rating reflects only the view of such organization and an explanation of the significance of such rating may be obtained from Standard & Poor's Ratings Group, 55 Water Street, New York, New York 10041, (212) 438-2000. There is no assurance that the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Certificates.

### **UNDERWRITING**

The Certificates will be purchased by Citigroup Global Markets Inc. (the "Underwriter"), under a Purchase Contract, dated \_\_\_\_\_, 2006 (the "Purchase Contract"), pursuant to which the Underwriter has agreed to purchase all, but not less than all, of the Certificates for an aggregate purchase price of \$\_\_\_\_\_ (which represents the principal amount of the Certificates less an Underwriter's discount of \$\_\_\_\_\_, less original issue discount of \$\_\_\_\_\_).

The initial public offering prices stated on the cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Certificates

to certain dealers (including dealers depositing Certificates into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

**MISCELLANEOUS**

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of such statements made will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the Certificates.

The execution and delivery of this Official Statement have been duly authorized by the District.

**CARPINTERIA VALLEY WATER DISTRICT**

By: \_\_\_\_\_  
*President*

**APPENDIX A**  
**DISTRICT FINANCIAL STATEMENTS**

## APPENDIX B

### DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INSTALLMENT PURCHASE AGREEMENT AND THE TRUST AGREEMENT

*The following is a summary of certain provisions of the Installment Purchase Agreement and the Trust Agreement which are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the respective agreement for a full and complete statement of the provisions thereof.*

#### DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INSTALLMENT PURCHASE AGREEMENT

Definitions. Unless the context otherwise requires, capitalized terms used under the caption “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INSTALLMENT PURCHASE AGREEMENT” will have the meanings defined below. Unless the context otherwise requires, all capitalized terms used below and not defined below will have the meanings ascribed thereto in the Installment Purchase Agreement and the Trust Agreement.

Accountant’s Report means a report signed by an Independent Certified Public Accountant.

Acquisition Fund means the fund by that name established pursuant to the Installment Purchase Agreement.

Agreement means that certain Installment Purchase Agreement, by and between the District and the Corporation, dated as of April 1, 2006, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

Bonds means all bonds, notes or similar obligations (but not including Contracts) of the District, the principal of and interest on which are payable from Net Revenues on a parity with the Installment Payments.

Business Day means a day other than: a Saturday or Sunday or a day on which (i) banks located in the city in which the principal corporate trust office of the Trustee is located are not required or authorized to remain closed, and (ii) on which The New York Stock Exchange is not closed.

Cachuma Water Supply Agreement means the Contract for the Furnishing of Water to the Carpinteria County Water District, dated September 12, 1949, by and between the Santa Barbara County Water Agency and the District, as originally executed and as renewed by the Renewal Master Contract on April 14, 1996, and as both may from time to time be amended or supplemented in accordance therewith.

Certificates means the Carpinteria Valley Water District Refunding Revenue Certificates of Participation, Series 2006A, executed and delivered on behalf of the District and at any time Outstanding pursuant to the Trust Agreement.

Continuing Disclosure Certificate means that certain Continuing Disclosure Certificate executed by the District and dated the date of execution and delivery of the Certificates, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

Contracts means the Installment Purchase Agreement, the 2000 Installment Purchase Agreement, the 1993 Joint Participation Agreement and all contracts of the District the Parity Installment Payments under which are payable from Net Revenues on a parity with the obligations of the District to make payments under the Installment Purchase Agreement, excluding contracts entered into for operation and maintenance of the Water System.

Corporation means the Carpinteria Valley Water District Financing Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California.

Date of Operation means, with respect to any uncompleted component Parity Project, the estimated date by which such uncompleted component Parity Project will have been completed and, in the opinion of an engineer, will be ready for operation by or on behalf of the District.

Debt Service means, for any Fiscal Year, the sum of: (1) the interest on all outstanding Bonds, payable during such Fiscal Year (except to the extent that such interest is capitalized); (2) that portion of the principal amounts of all outstanding serial Bonds maturing in such Fiscal Year; (3) that portion of the principal amounts of all outstanding term Bonds required to be prepaid or paid in such Fiscal Year; and (4) that portion of the Parity Installment Payments required to be made during such Fiscal Year (except to the extent the interest evidenced and represented thereby is capitalized); provided that, as to any such Bonds or Parity Installment Payments bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service will, for all purposes, be assumed to bear interest at a fixed rate equal to the higher of (i) the actual rate on the date of calculation, or if the Bonds or Parity Installment Payments are not yet outstanding, the initial rate (if established and binding), (ii) if the Bonds or Parity Installment Payments have been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii) (1) if interest on the Bonds or Parity Installment Payments is excludable from gross income under the applicable provisions of the Code, the most recently published Bond Buyer 25 Bond Revenue Index (or comparable index if no longer published) plus fifty (50) basis points, or (2) if interest is not so excludable, the interest rate on direct United States Treasury obligations with comparable maturities plus fifty (50) basis points;

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

and provided further that, as to any such Bonds or Parity Installment Payments or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Bonds or Parity Installment Payments or portions thereof, such accreted discount will be treated as interest in the calculation of Debt Service;

and provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service will be deducted from the amount of principal due at the final maturity of

the Bonds and Contracts for which such debt service reserve fund was established and in each preceding year until such amount is exhausted;

and provided further that Debt Service will be reduced by an amount equal to earnings on any reserve fund (including the Reserve Fund) transferred to the corresponding debt service fund (including the Interest Fund created under the Trust Agreement);

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

District means Carpinteria Valley Water District, a county water district, duly organized and existing under and by virtue of the laws of the State of California, including the Law.

Event of Default means an event described under the caption “EVENTS OF DEFAULT AND REMEDIES OF THE CORPORATION – Event of Default and Acceleration of Maturities.”

Fiscal Year means the period beginning on July 1 of each year and ending on the last day of June of the next succeeding year, or any other twelve-month period selected and designated as the official Fiscal Year of the District.

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

Independent Financial Consultant means a financial consultant or firm of such consultants appointed by the District, and who, or each of whom: (1) is in fact independent and not under domination of the District; (2) does not have any substantial interest, direct or indirect, with the District; and (3) is not connected with the District as an officer or employee thereof, but who may be regularly retained to make reports thereto.

Installment Payment Date means the fifth day prior to each Interest Payment Date, or if said date is not a Business Day, then the preceding Business Day. The term “Parity Installment Payment Date” means each date on which Parity Installment Payments are scheduled to be paid by the District under and pursuant to any Contract.

Installment Payments; Parity Installment Payments means the Installment Payments of interest and principal scheduled to be paid by the District under the Installment Purchase Agreement. The term “Parity Installment Payments” means the payments of interest and principal scheduled to be paid by the District under and pursuant to the Contracts.

Interest Payment Date means January 1 and July 1 of each year, commencing January 1, 2007.

Law means the County Water District Law of the State of California (being Division 12 of the Water Code of the State of California, as amended) and Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, including all laws amendatory thereof or supplemental thereto.

Manager means the General Manager of the District, or any other person designated by the General Manager to act on behalf of the General Manager.

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

Net Revenues means, for any Fiscal Year, the Revenues for such Fiscal Year less the Operation and Maintenance Costs for such Fiscal Year.

1993 Joint Participation Agreement means the Joint Participation Agreement, dated as of June 1, 1993, by and between the District and the Cachuma Project Authority, as originally executed and as amended by Amendment No. 1 to the Joint Participation Agreement dated April 1, 2004, and as it may from time to time be amended or supplemented in accordance therewith.

Operation and Maintenance Costs means (1) costs spent or incurred for maintenance and operation of the Water System calculated in accordance with generally accepted accounting principles, including (among other things) the expenses of management and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including administrative costs of the District, salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, (2) all other reasonable and necessary costs of the District or charges (other than Debt Service) required to be paid by it to comply with the terms of the Installment Purchase Agreement or any other Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds, (3) all costs paid by the District under the Water Supply Agreement, and (4) all costs paid by the District under the Cachuma Water Supply Agreement, but excluding in all cases (a) depreciation, replacement and obsolescence charges or reserves therefor, (b) amortization of intangibles or other bookkeeping entries of a similar nature, (c) costs of capital additions, replacements, betterments, extensions or improvements to the Water System which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, and (d) charges for the payment of Bonds or Contracts.

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

Participating Underwriter will have the meaning ascribed thereto in the Continuing Disclosure Certificate.

Project; Parity Project means the additions, betterments, extensions and improvements to the Water System described in Exhibit B to the Installment Purchase Agreement. The term "Parity Project" means any additions, betterments, extensions or improvements designated by the Board of Directors of the District as a Parity Project, the acquisition and construction of which is to be paid for with the proceeds of any Contracts or Bonds.

Purchase Price means the principal amount plus interest thereon owed by the District to the Corporation under the terms of the Installment Purchase Agreement.

Reserve Requirement means, initially \$\_\_\_\_\_ and thereafter will be equal to the lesser of such amount or the maximum annual Installment Payment in the current or any future Fiscal Year.

Revenue Fund means all revenue accounts maintained by the District as of the date of the Installment Purchase Agreement, together with any revenue account created after the date of the Installment Purchase Agreement and designated by the Treasurer of the District as a part of the Revenue Fund.

Revenues means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Water System, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges or other moneys derived from the sale, furnishing and supplying of the water or other services, facilities, and commodities sold, furnished or supplied through the facilities of the Water System including standby and availability charges and capital cost recovery fees allocable to the Water System, plus (2) except as set forth in (z) below, taxes or assessments, if any, the imposition of which is permitted by law, and (3) the earnings on and income derived from the investment of the amounts described in clauses (1) and (2) above and the general unrestricted funds of the District, but excluding in all cases (y) customers' deposits or any other deposits subject to refund until such deposits have become the property of the District, and (z) reserves taxes or assessments specifically pledged to the payment of debt service with respect to notes, bonds or other obligations of the District and which reserves, taxes or assessment are not available for any other purpose of the District.

2000 Project means the additions, betterments, extensions and improvements described in the Installment Purchase Agreement.

2006 Project means the additions, betterments, extensions and improvements described in an exhibit to the Installment Purchase Agreement.

2000 Installment Purchase Agreement means the Installment Purchase Agreement by and between the District and the Corporation, dated as of May 1, 2000.

Trust Agreement means the Trust Agreement, dated as of April 1, 2006, by and between the District, the Corporation and the Trustee, relating to the Certificates, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

Trustee means Union Bank of California, N.A., acting in its capacity as Trustee under and pursuant to the Trust Agreement, and its successors and assigns.

Water Service means the water distribution service made available or provided by the Water System.

Water Supply Agreement means the Water Supply Agreement, dated as of August 1, 1991, by and between the District and the Central Coast Water Authority, and as such Water Supply Agreement may be amended or supplemented in accordance with its terms.

Water System means all properties and assets, real and personal, tangible and intangible, of the District now or hereafter existing, used or pertaining to the acquisition, treatment, reclamation, transmission, distribution and sale of water, including all additions, extensions, expansions, improvements and betterments thereto; provided, however, that to the extent the District is not the sole owner of an asset or property or to the extent that an asset or property is used in part for the

above described water purposes, only the District's ownership interest in such asset or property or only the part of the asset or property so used for water purposes will be considered to be part of the Water System.

Written Consent of the Corporation or District, Written Order of the Corporation or District, Written Request of the Corporation or District and Written Requisition of the Corporation or District mean, respectively, a written consent, order, request or requisition signed by or on behalf of (i) the Corporation by its Authorized Representative or (ii) the District by the President of its Board of Directors or its General Manager or by the Secretary of its Board of Directors or by any two persons (whether or not officers of the Board of Directors of the District) who are specifically authorized by resolution of the District to sign or execute such a document on its behalf.

## SALE AND PURCHASE OF THE PROJECT

Sale and Purchase of Project. In consideration for the assistance of the Corporation in refinancing the Project, the District will sell to the Corporation, and the Corporation will purchase from the District, the 2000 Project at the purchase price specified in the Installment Purchase Agreement and otherwise in the manner and in accordance with the provisions of the Installment Purchase Agreement.

Purchase and Sale of the Project. In consideration for the Installment Payments as set forth in the Installment Purchase Agreement, the Corporation will sell to the District, and the District will purchase from the Corporation, the Project at the purchase price specified in the Installment Purchase Agreement and otherwise in the manner and in accordance with the provisions of the Installment Purchase Agreement.

Title. All right, title and interest in each component of the 2000 Project will vest in the District immediately upon execution and delivery of the Installment Purchase Agreement.

Acquisition and Construction of the 2006 Project. The Corporation will cause the 2006 Project, and any additions or modifications thereto to be constructed, acquired or installed by the District as its agent, and the District will enter into contracts and provide for, as agent of the Corporation, the complete construction, acquisition and installation of the 2006 Project. The District will cause the construction, acquisition and installation of the 2006 Project to be diligently performed after the deposit of funds with the Trustee pursuant to the Trust Agreement, upon satisfactory completion of design work and compliance with CEQA and approval by the Board of Directors of the District, unforeseeable delays beyond the reasonable control of the District only excepted. It is expressly understood and agreed that the Corporation will be under no liability of any kind or character whatsoever for the payment of any cost of the 2006 Project and that all such costs and expenses will be paid by the District, regardless of whether the funds deposited in the Acquisition Fund are sufficient to cover all such costs and expenses.

Changes to the 2006 Project. The District may substitute other improvements for those listed as components of the 2006 Project in the Installment Purchase Agreement, but only if the District first files with the Corporation and the Trustee a statement of the District: (a) identifying the improvements to be deleted from such Exhibit and the improvements to replace such deleted improvements; and (b) stating that the estimated costs of construction, acquisition and installation of the substituted improvements are not less than such costs for the improvements previously planned.

Acquisition Fund. There is established with the Trustee the Acquisition Fund. The moneys in the Acquisition Fund will be held by the District in trust and will be applied to the payment of the costs of acquisition and construction of the 2006 Project and of expenses incidental thereto, including Delivery Costs. Before any payment is made from the Acquisition Fund by the Director of Finance of the District, the Manager will cause to be filed with the Director of Finance of the District a Written Requisition of the District in the form set forth in the Installment Purchase Agreement.

Upon receipt of each such Written Requisition the Director of Finance of the District will pay the amount set forth in such Written Requisition as directed by the terms thereof. The Director of Finance of the District need not make any such payment if it has received notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys to be so paid, which has not been released or will not be released simultaneously with such payment.

When the 2006 Project will have been constructed and acquired in accordance with the Installment Purchase Agreement, a statement of the District stating the fact and date of such acquisition, construction and acceptance and stating that all of such costs of acquisition and incidental expenses have been determined and paid (or that all of such costs and expenses have been paid less specified claims which are subject to dispute and for which a retention in the Acquisition Fund is to be maintained in the full amount of such claims until such dispute is resolved), will be delivered to the Director of Finance of the District and the Trustee by the District. Upon the receipt of such statement, the Director of Finance of the District will transfer any remaining balance in the Acquisition Fund not needed for Acquisition Fund purposes (but less the amount of any such retention which amount will be certified to the Director of Finance of the District by the District) to the Trustee which will transfer such amounts first to the Reserve Fund until the amount therein equals the Reserve Requirement, and thereafter to the Certificate Payment Fund for prepayment of Certificates in accordance with the Trust Agreement.

## SECURITY

Pledge of Revenues. All Revenues and all amounts on deposit in the Revenue Fund are irrevocably pledged to the payment of the Installment Payments as provided in the Installment Purchase Agreement and the Revenues will not be used for any other purpose while any of the Installment Payments remain unpaid; provided that out of the Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Installment Purchase Agreement. Such pledge, together with the pledge created by all other Contracts and Bonds, will constitute a lien on Revenues and, subject to application of Revenues and all amounts on deposit therein as permitted in the Installment Purchase Agreement, the Revenue Fund.

Allocation of Revenues. In order to carry out and effectuate the pledge and lien contained in the Installment Purchase Agreement, the District has agreed and covenanted that all Revenues will be received by the District in trust under the Installment Purchase Agreement and will be deposited when and as received in a special fund designated as the "Revenue Fund," which fund includes the accounts described in the definition thereof and which fund the District agrees and covenants to maintain and to hold separate and apart from other funds so long as any Contracts or Bonds remain unpaid. Moneys in the Revenue Fund will be used and applied by the District as provided in the Installment Purchase Agreement.

The District will, from the moneys in the Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation

and Maintenance Costs become due and payable. All remaining moneys in the Revenue Fund thereafter will be set aside by the District at the following times for the transfer to the following respective special funds in the following order of priority; and all moneys in each of such funds will be held in trust and will be applied, used and withdrawn only for the purposes set forth in the Installment Purchase Agreement.

Installment Payments. Not later than each Installment Payment Date, the District will, from the moneys in the Revenue Fund, transfer to the Trustee the Installment Payment due and payable on that Installment Payment Date. The District will also, from the moneys in the Revenue Fund, transfer to the applicable trustee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of any Bond or Contract.

Reserve Funds. On or before each Installment Payment Date the District will, from the remaining moneys in the Revenue Fund, thereafter, without preference or priority and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the Trustee for deposit in the Reserve Fund and to the applicable trustee for such other reserve funds and/or accounts, if any, as may have been established in connection with Bonds or Contracts other than the Installment Purchase Agreement, that sum, if any, necessary to restore the Reserve Fund to an amount equal to the Reserve Requirement; provided, however, that the District may provide for the Reserve Fund by means other than cash and Permitted Investments pursuant to the Trust Agreement.

Surplus. Moneys on deposit in the Revenue Fund on each Installment Payment Date not necessary to make any of the payments required above may be expended by the District at any time for any purpose permitted by law.

Investments. All moneys held by the District in the Revenue Fund and the Acquisition Fund will be invested in Permitted Investments and the investment earnings thereon will remain on deposit in such fund, except as otherwise provided therein.

#### COVENANTS OF THE DISTRICT.

Compliance with Installment Purchase Agreement and Ancillary Agreements. The District will punctually pay the Installment Payments in strict conformity with the terms of the Installment Purchase Agreement, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained therein required to be observed and performed by it, and will not terminate the Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Water 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 therein required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected therewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Corporation or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

It is expressly understood and agreed by and among the parties to the Installment Purchase Agreement that, subject to the Installment Purchase Agreement, each of the agreements, conditions, covenants and terms contained in the Installment Purchase Agreement is an essential and material term of the purchase of and payment for the Project and by the District pursuant to, and in accordance with, and as authorized under the Law.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms required to be observed and performed by it pursuant to all outstanding Contracts and Bonds as such may from time to time be executed or issued, as the case may be.

Against Encumbrances. The District will not make any pledge of or place any lien on Revenues or the moneys in the Revenue Fund except as permitted under the Installment Purchase Agreement. The District may at any time, or from time to time, issue Contracts and Bonds as permitted in the Installment Purchase Agreement, or may issue or incur evidences of indebtedness or incur other obligations, provided that such pledge and lien will be subordinate in all respects to the pledge of and lien thereon provided in the Installment Purchase Agreement.

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

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

Against Competitive Facilities. To the extent permitted by existing law, the District will not acquire, construct, maintain or operate and will not permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the boundaries of the District any water system competitive with the Water System.

Tax Covenants. Notwithstanding any other provision of the Installment Purchase Agreement, absent an opinion of Special Counsel that the exclusion from gross income of interest with respect to the Certificates will not be adversely affected for federal income tax purposes, the District and the Corporation covenant 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:

Private Activity. The District and the Corporation will not take or omit to take any action or make any use of the proceeds of the Certificates or of any other moneys or property which would cause the Certificates to be “private activity bonds” within the meaning of Section 141 of the Code.

Arbitrage. The District and the Corporation 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 Certificates to be “arbitrage bonds” within the meaning of Section 148 of the Code.

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

Information Reporting. The District and the Corporation will take or cause to be taken all necessary action to comply with the informational reporting requirements of Section 149(e) of the Code.

Miscellaneous. The District and the Corporation will take no action inconsistent with the expectations stated in any Tax Certificate executed with respect to the Certificates and will comply with the covenants and requirements stated therein and incorporated in the Installment Purchase Agreement.

The covenants set forth under the caption “COVENANTS OF THE DISTRICT – Tax Covenants” will not be applicable to, and nothing contained therein will be deemed to prevent the District and the Corporation from issuing Certificates, the interest with respect to which has been determined by Special Counsel to be subject to federal income taxation.

Maintenance and Operation of the Water System. The District will maintain and preserve the Water System in good repair and working order at all times and will operate the Water System in an efficient and economical manner and will pay all Operation and Maintenance Costs as they become due and payable.

Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Revenues or the funds or accounts created under the Installment Purchase Agreement or on any funds in the hands of the District or the Trustee pledged to pay the Installment Payments or to the Owners prior or superior to the lien of the Installment Payments or which might impair the security of the Installment Payments, but the District will not be required to pay such claims if the validity thereof will be contested in good faith.

Compliance with Contracts. The District will neither take nor omit to take any action under any contract if the effect of such act or failure to act would in any manner impair or adversely affect the ability of the District to pay Installment Payments; and the District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all other contracts affecting or involving the Water System, to the extent that the District is a party thereto, including but not limited to the Cachuma Water Supply Agreement, the Water Supply Agreement and the 1993 Joint Participation Agreement.

Insurance. The District will procure and maintain or cause to be procured and maintained insurance on the Water System with responsible insurers in such amounts and against such risks (including damage to or destruction of the Water System) as are usually covered in connection with facilities similar to the Water System so long as such insurance is available from reputable insurance companies.

In the event of any damage to or destruction of the Water System caused by the perils covered by such insurance, the Net Proceeds thereof will be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Water System. The District will begin such reconstruction, repair or replacement promptly after such damage or destruction will occur, and will continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and will pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same will be completed and the Water System will be free and clear of all claims and liens.

If such Net Proceeds exceed the costs of such reconstruction, repair or replacement portion of the Water System, and/or the cost of the construction of additions, betterments, extensions or improvements to the Water System, then the excess Net Proceeds will be applied in part to the prepayment of Installment Payments as provided in the Installment Purchase Agreement and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal balance of Installment Payments then bears to the aggregate unpaid principal amount of such Bonds and Contracts. If such Net Proceeds are sufficient to enable the District to retire the entire obligation evidenced by the Installment Purchase Agreement prior to the final due date of the Installment Payments as well as the entire obligations evidenced by Bonds and Contracts then remaining unpaid prior to their final respective due dates, the District may elect not to reconstruct, repair or replace the damaged or destroyed portion of the Water System, and/or not to construct other additions, betterments, extensions or improvements to the Water System; and thereupon such Net Proceeds will be applied to the prepayment of Installment Payments as provided in the Installment Purchase Agreement and to the retirement of such Bonds and Contracts.

The District will procure and maintain such other insurance as it will deem advisable or necessary to protect its interests and the interests of the Corporation, which insurance will afford protection in such amounts and against such risks as are usually covered in connection with municipal water systems similar to the Water System.

Any insurance required to be maintained by paragraph (a) above and, if the District determines to procure and maintain insurance pursuant to paragraph (b) above, such insurance, may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with water systems similar to the Water System and is, in the opinion of an accredited actuary, actuarially sound.

All policies of insurance required to be maintained in the Installment Purchase Agreement will provide that the Corporation and the Trustee will be given thirty (30) days written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Accounting Records; Financial Statements and Other Reports. The District will keep appropriate accounting records, including financial statements, audits and/or annual reports, in which complete and correct entries will be made of all transactions relating to the Water System, which records will be available for inspection by the Corporation and the Trustee at reasonable hours and

under reasonable conditions. The District will permit the Certificate Insurer to have access to and to make copies of all books and records relating to the Certificates at any reasonable time. Upon request by the Certificate Insurer, such information will be delivered at the expense of the District to the surveillance department at the Certificate Insurer unless otherwise indicated.

The District will permit the Certificate Insurer to discuss the affairs, finances and accounts of the District or any information the Certificate Insurer may reasonably request regarding the security for the Certificates with appropriate officers of the District.

Protection of Security and Rights of the Corporation. The District will preserve and protect the security of the Installment Purchase Agreement and the rights of the Corporation to the Installment Payments under the Installment Purchase Agreement and will warrant and defend such rights against all claims and demands of all persons.

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 System, or any part thereof or upon the Revenues when the same will become due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Water System or any part thereof, but the District will not be required to comply with any regulations or requirements so long as the validity or application thereof will be contested in good faith.

Collection of Rates and Charges. The District will have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates and charges applicable to the Water Service and providing for the billing thereof and for a due date and a delinquency date for each bill.

Eminent Domain Proceeds. If all or any part of the Water System will be taken by eminent domain proceedings, the Net Proceeds thereof will be applied as follows: (a) If (1) the District files with the Corporation and the Trustee a certificate showing (i) the estimated loss of annual Net Revenues, if any, suffered or to be suffered by the District by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the Water System proposed to be acquired and constructed by the District from such Net Proceeds, and (iii) an estimate of the additional annual Net Revenues to be derived from such additions, betterments, extensions or improvements, and (2) the District, on the basis of such certificate filed with the Corporation and the Trustee, determines that the estimated additional annual Net Revenues will sufficiently offset the estimated loss of annual Net Revenues resulting from such eminent domain proceedings so that the ability of the District to meet its obligations under the Installment Purchase Agreement will not be substantially impaired (which determination will be final and conclusive), then the District will promptly proceed with the acquisition and construction of such additions, betterments, extensions or improvements substantially in accordance with such certificate and such Net Proceeds will be applied for the payment of the costs of such acquisition and construction, and any balance of such Net Proceeds not required by the District for such purpose will be deposited in the Revenue Fund; (b) If the foregoing conditions are not met, then such Net Proceeds will be applied by the District in part to the prepayment of Installment Payments as provided in the Installment Purchase Agreement and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal balance of Installment Payments then bears to the aggregate unpaid principal amount of such Bonds and Contracts.

Further Assurances. The District will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Installment Purchase Agreement and for the better assuring and confirming unto the Corporation of the rights and benefits provided to it therein.

#### EVENTS OF DEFAULT AND REMEDIES OF THE CORPORATION

Events of Default and Acceleration of Maturities. If one or more of the following Events of Default will happen, that is to say (a) if default will be made by the District in the due and punctual payment of any Installment Payment or any Contract or Bond when and as the same will become due and payable; (b) if default will be made by the District in the performance of any of the other agreements or covenants required therein by it or in any Contract or Bond to be performed by it, and such default will have continued for a period of sixty (60) days after the District will have been given notice in writing of such default by the Corporation; (c) if the District will 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 will 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 will assume custody or control of the District or of the whole or any substantial part of its property; or (d) if payment of the principal of any Contract or Bond is accelerated in accordance with its terms; then and in each and every such case during the continuance of such Event of Default specified in clauses (c) and (d) above, the Corporation will, with the written consent of the Certificate Insurer so long as the Bond Insurance Policy is in full force and effect, and for any other such Event of Default the Corporation may with the written consent of the Certificate Insurer so long as the Bond Insurance Policy is in full force and effect, and in each and every such case the Corporation, at the written direction of the Certificate Insurer so long as the Bond Insurance Policy is in full force and effect by notice in writing to the District, will declare the entire principal amount of the unpaid Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same will become immediately due and payable, anything contained therein to the contrary notwithstanding. This section, however, is subject to the condition that if at any time after the entire principal amount of the unpaid Installment Payments and the accrued interest thereon will have been so declared due and payable and before any judgment or decree for the payment of the moneys due will have been obtained or entered the District will deposit with the Corporation a sum sufficient to pay the unpaid principal amount of the Installment Payments and/or the unpaid payment of any other Contract or Bond referred to in clause (a) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the Installment Payments or such Contract or Bond if paid in accordance with their terms, and the reasonable expenses of the Corporation, and any and all other defaults known to the Corporation (other than in the payment of the entire principal amount of the unpaid Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) will have been made good or cured to the satisfaction of the Corporation and the Certificate Insurer or provision deemed by the Corporation and the Certificate Insurer to be adequate will have been made therefor, then and in every such case the Corporation and the Certificate Insurer, by written notice to the District, may rescind and annul such declaration and its consequences; but no such rescission and annulment will extend to or will affect any subsequent default or will impair or exhaust any right or power consequent thereon.

So long as the Bond Insurance Policy is in full force and effect and the Certificate Insurer will not have defaulted on its obligations hereunder, any reorganization or liquidation plan with respect to the District must be acceptable to the Certificate Insurer and the Certificate Insurer will have the right to vote on behalf of the Owners of Certificates.

Application of Funds Upon Acceleration. Upon the date of the declaration of acceleration as provided under the caption “EVENTS OF DEFAULT AND REMEDIES OF THE CORPORATION – Application Of Funds Upon Acceleration” in the Installment Purchase Agreement, all Revenues thereafter received will be applied in the following order: First, to the payment, without preference or priority, and in the event of any insufficiency of such Revenues ratably without any discrimination or preference, of the fees, costs and expenses of the Corporation and Trustee, if any, including reasonable compensation to its accountants and counsel; Second, to the payment of the Operation and Maintenance Costs; and Third, to the payment of the entire principal amount of the unpaid Installment Payments and the unpaid principal amount of all Bonds and Contracts and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable to the Installment Payments and such Bonds and Contracts if paid in accordance with their respective terms.

Other Remedies of the Corporation. The Corporation will have the right with the written consent of the Certificate Insurer so long as the Bond Insurance Policy is in full force and effect and will at the direction of the Certificate Insurer so long as the Bond Insurance Policy is in full force and effect: (a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any director, officer or employee thereof, and to compel the District or any such director, officer or employee to perform and carry out its or his duties under the Law and the agreements and covenants required to be performed by it or him contained in the Installment Purchase Agreement; (b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Corporation; or (c) by suit in equity upon the happening of an Event of Default to require the District and its directors, officers and employees to account as the trustee of an express trust.

Notwithstanding anything contained therein, the Corporation will have no security interest in or mortgage on the Project, the Water System or other assets of the District, and no default under the Installment Purchase Agreement will result in the loss of the Project, the Water System or other assets of the District.

Non-Waiver. Nothing in the Installment Purchase Agreement will affect or impair the obligation of the District, which is absolute and unconditional, to pay the Installment Payments to the Corporation at the respective due dates or upon prepayment from the Net Revenues, the Revenue Fund and the other funds pledged in the Installment Purchase Agreement for such payment, or will affect or impair the right of the Corporation, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied therein.

A waiver of any default or breach of duty or contract by the Corporation will not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Corporation to exercise any right or remedy accruing upon any default or breach of duty or contract will impair any such right or remedy or will be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Corporation by the

Law or the Installment Purchase Agreement may be enforced and exercised from time to time and as often as will be deemed expedient by the Corporation.

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

Remedies Not Exclusive. No remedy in the Installment Purchase Agreement conferred upon or reserved to the Corporation is intended to be exclusive of any other remedy, and each such remedy will be cumulative and will be in addition to every other remedy given under the Installment Purchase Agreement existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

If any remedial action is discontinued or abandoned, the Trustee, the Certificate Insurer and Certificate Owners will be restored to their former positions.

Notices. Notwithstanding any other provision of the Installment Purchase Agreement, the Trustee will immediately notify the Certificate Insurer if at any time there are insufficient moneys to make any Installment Payments as required and immediately upon the occurrence of any event of default under the Installment Purchase Agreement.

#### DISCHARGE OF OBLIGATIONS

Discharge of Obligations. (a) When all or any portion of the Installment Payments will have become due and payable in accordance with the Installment Purchase Agreement or a written notice of the District to prepay all or any portion of the Installment Payments will have been filed with the Trustee; and (b) there will have been deposited with the Trustee at or prior to the Installment Payment Dates or date (or dates) specified for prepayment, in trust for the benefit of the Corporation or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of the Installment Payments, sufficient moneys and non-callable Permitted Investments, issued by the United States of America and described in clause (A) of the definition thereof, the principal of and interest on which when due will provide money sufficient to pay all principal, prepayment premium, if any, and interest of such Installment Payments to their respective Installment Payment Dates or prepayment date or dates as the case may be; and (c) provision will have been made for paying all fees and expenses of the Trustee, then and in that event, the right, title and interest of the Corporation in the Installment Purchase Agreement and the obligations of the District under the Installment Purchase Agreement will, with respect to all or such portion of the Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the District to have such moneys and such Permitted Investments applied to the payment of such Installment Payments).

In such event, upon request of the District the Trustee will cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and will execute and deliver to the District all such instruments as may be necessary or desirable to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a total discharge and satisfaction, the Trustee will pay over to the District, after payment of all amounts due the Trustee pursuant to the Trust Agreement, as an overpayment of Installment Payments, all such moneys or such Permitted Investments held by it pursuant to the Installment Purchase Agreement other than such moneys and such Permitted Investments as are required for the payment

or prepayment of the Installment Payments, which moneys and Permitted Investments will continue to be held by the Trustee in trust for the payment of the Installment Payments and will be applied by the Trustee to the payment of the Installment Payments of the District.

## MISCELLANEOUS

Liability of District Limited to Revenues. Notwithstanding anything contained in the Installment Purchase Agreement, the District will not be required to advance any moneys derived from any source of income other than the Revenues and the Revenue Fund for the payment of amounts due under the Installment Purchase Agreement or for the performance of any agreements or covenants required to be performed by it contained in the Installment Purchase 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 Installment Payments is a special obligation of the District payable solely from the Net Revenues, and does not constitute a debt of the District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Benefits of Installment Purchase Agreement Limited to Parties. Nothing contained in the Installment Purchase Agreement, expressed or implied, is intended to give to any person other than the District, the Certificate Insurer or the Corporation any right, remedy or claim under or pursuant to the Installment Purchase Agreement, and any agreement or covenant required in the Installment Purchase Agreement to be performed by or on behalf of the District or the Corporation will be for the sole and exclusive benefit of the other party. To the extent the Installment Purchase Agreement confers upon or gives or grants to the Certificate Insurer any right, remedy or claim under or by reason of the Installment Purchase Agreement, the Certificate Insurer is hereby explicitly recognized as being a third-party beneficiary under the Installment Purchase Agreement and may enforce any such right, remedy or claim conferred, given or granted under the Installment Purchase Agreement.

Successor Is Deemed Included in all References to Predecessor. Whenever either the District or the Corporation is named or referred to in the Installment Purchase Agreement, such reference will be deemed to include the successor to the powers, duties and functions that are presently vested in the District or the Corporation, and all agreements and covenants required by the Installment Purchase Agreement to be performed by or on behalf of the District or the Corporation will bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Waiver of Personal Liability. No director, officer or employee of the District will be individually or personally liable for the payment of the Installment Payments, but nothing contained in the Installment Purchase Agreement will relieve any director, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or by the Installment Purchase Agreement.

Partial Invalidity. If any one or more of the agreements or covenants or portions of the Installment Purchase Agreement required by the Installment Purchase Agreement to be performed by or on the part of the District or the Corporation will be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof will be null and void and will be deemed separable from the remaining agreements and covenants or portions thereof and will in no way affect the validity of the Installment Purchase Agreement. The District and the Corporation

have declared that they would have executed the Installment Purchase Agreement, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase thereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases of the Installment Purchase Agreement or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Assignment. The Installment Purchase Agreement and any rights under the Installment Purchase Agreement may be assigned by the Corporation, as a whole or in part, without the necessity of obtaining the prior consent of the District.

Net Contract. The Installment Purchase Agreement will be deemed and construed to be a net contract, and the District will pay absolutely net during the term thereof the Installment Payments and all other payments required under the Installment Purchase Agreement, free of any deductions and without abatement, diminution or set-off whatsoever.

California Law. THE INSTALLMENT PURCHASE AGREEMENT WILL BE CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

Indemnification of Corporation. The District will indemnify and hold harmless the Corporation if and to the extent permitted by law, from and against all claims, advances, damages and losses, including legal fees and expenses, arising out of or in connection with the acceptance or the performance of its duties under the Installment Purchase Agreement and under the Trust Agreement; provided that no indemnification will be made for willful misconduct, negligence or breach of an obligation under the Installment Purchase Agreement or under the Trust Agreement by the Corporation.

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

The Installment Purchase Agreement and the rights and obligations of the Corporation, the District and of the Owners of the Certificates may also be modified or amended at any time by an amendment to the Installment Purchase Agreement which will become binding upon adoption, without the consent of the Owners of any Certificates, but only to the extent permitted by law and only for any one or more of the following purposes- (a) to add to the covenants and agreements of the Corporation or the District contained in the Installment Purchase Agreement other covenants and agreements thereafter to be observed or to surrender any right or power therein reserved to or

conferred upon the Corporation or the District, and which will not adversely affect the interests of the Owners of the Certificates; (b) to cure, correct or supplement any ambiguous or defective provision contained in the Installment Purchase Agreement or in regard to questions arising under the Installment Purchase Agreement, as the Corporation or the District may deem necessary or desirable and which will not adversely affect the interests of the Owners of the Certificates; and (c) to make such other amendments or modifications as may be in the best interests of the Owners of the Certificates.

Unless otherwise provided in the Installment Purchase Agreement, the Certificate Insurer's consent will be required in lieu of Owner's consent, when required, for the following purposes:

- (a) execution and delivery of any supplemental Installment Purchase Agreement or any amendment, Supplement or change or modification of the Installment Purchase Agreement;
- (b) removal of the Trustee and selection and appointment of any successor trustees; and
- (c) institution or approval of any actions not described in (a) or (b) above which requires Owner consent.

Anything in the Installment Purchase Agreement to the contrary notwithstanding, any provision of the Installment Purchase Agreement expressly recognizing or granting rights in or to the Certificate Insurer may not be amended in any manner which affects the rights of the Certificate Insurer under the Installment Purchase Agreement without the prior, written consent of the Certificate Insurer. The Certificate Insurer reserves the right to charge the District a fee for any consent or amendment to the Installment Purchase Agreement so long as the Bond Insurance Policy is in full force and effect and the Certificate Insurer will not have defaulted on its obligations under the Installment Purchase Agreement.

No amendment without consent of the Owners may modify any of the rights or obligations of the Trustee without its written consent thereto or the rights or obligations of the Certificate Insurer without its written consent thereto.

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## **DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT**

Definitions. Unless the context otherwise requires, capitalized terms used under the caption “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT” will have the meanings defined below. Unless the context otherwise requires, all capitalized terms used below and not defined below will have the meanings ascribed thereto in the Installment Purchase Agreement and the Trust Agreement.

Agreement means the Trust Agreement, as originally executed or as it may from time to time be amended or supplemented as provided for therein.

Assignment Agreement means that certain Assignment Agreement, by and between the Corporation and the Trustee, dated as of April 1, 2006 as originally executed or as it may from time to time be amended or supplemented in accordance with its terms.

Bond Insurance Policy means the financial guaranty insurance policy issued by Ambac Assurance insuring the payment when due of the principal of and interest on the Certificates as provided therein.

Certificate Insurer means the Ambac Assurance Corporation, a Wisconsin domiciled stock insurance company.

Certificate Payment Fund means the fund by that name established in the Trust Agreement.

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

Code means the Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations in effect with respect thereto.

Delivery Cost Fund means the fund by that name established in the Trust Agreement.

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

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

Escrow Agent means Union Bank of California, N.A., as escrow agent, a national banking association organized under the laws of the United States.

Escrow Agreement means that certain Escrow Agreement, by and between the Agency and the Escrow Agent, dated as of April 1, 2006.

Escrow Fund means the fund by that name established in the Escrow Agreement.

Information Services means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services' "Called Bond Service," 55 Broad Street, 28th Floor, New York, New York 10004; Moody's Investors Service "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; Standard and Poor's Corporation "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the District may designate in a Written Request of the District delivered to the Trustee.

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

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

Installment Purchase Agreement means the Installment Purchase Agreement, dated as of April 1, 2006, by and between the District and the Corporation, as originally executed or as it may from time to time be amended or supplemented in accordance with its terms.

Interest Fund means the fund by that name established in the Trust Agreement.

Letter of Representations means the letter of the District and the Trustee delivered to and accepted by the Depository on or prior to delivery of the Certificates as book-entry certificates setting forth the basis on which the Depository serves as depository for such book-entry certificates, as originally executed or as it may be supplemented or revised or replaced by a letter from the District and the Trustee delivered to and accepted by the Depository.

Nominee means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Trust Agreement.

Outstanding. The term "Outstanding," when used as of any particular time with reference to Certificates, means (subject to the provisions of the Trust Agreement) all Certificates except: (1) Certificates canceled by the Trustee or delivered to the Trustee for cancellation; (2) Certificates paid or deemed to have been paid within the meaning of the Trust Agreement; and (3) Certificates in lieu of or in substitution for which other Certificates will have been executed and delivered by the Trustee pursuant to the Trust Agreement.

Owner or "Owner of Certificates" or any similar term, when used with respect to the Certificates, means any person who will be the registered owner of any Outstanding Certificate.

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

Payment Dates; Payment Date means January 1 and July 1 in each year commencing January 1, 2007 and any date on which the unpaid Installment Payments are declared to be due and payable immediately and provided such declaration is not rescinded or annulled, all in accordance with the Installment Purchase Agreement.

Permitted Investments means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(a) for all purposes, including but not limited to defeasance investments in refunding escrow accounts: (1) cash (insured at all times by the Federal Deposit Insurance Corporation); (2) obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including: U.S. treasury obligations; all direct or fully guaranteed obligations; Farmers Home Administration; General Services Administration; Guaranteed Title XI financing; Government National Mortgage Association (GNMA); and State and Local Government Series.

Notwithstanding the foregoing, if any such securities are applied to the defeasance of the Certificates pursuant to the Trust Agreement, such securities must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

(b) for all purposes other than defeasance investments in refunding escrow accounts: (1) obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America, including the Export-Import Bank; Rural Economic Community Development Administration; U.S. Maritime Administration; Small Business Administration; U.S. Department of Housing & Urban Development (PHAs); Federal Housing Administration; and Federal Financing Bank; (2) direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC); obligations of the Resolution Funding Corporation (REFCORP); senior debt obligations of the Federal Home Loan Bank System; and senior debt obligations of other Government Sponsored Agencies approved by the Certificate Insurer; (3) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank); (4) commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase; (5) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P; (6) pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or (B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on

such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate; (7) Municipal Obligations rated “Aaa/AAA” or general obligations of States with a rating of “A2/A” or higher by both Moody’s and S&P; (8) investment agreements approved in writing by the Certificate Insurer (supported by appropriate opinions of counsel); and (9) other forms of investments (including repurchase agreements) approved in writing by the Certificate Insurer.

(c) the value of the above investments will be determined as follows: (i) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund will be valued at fair market value. The Trustee will determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers will include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Citigroup Global Markets Inc., Bear Stearns, or Lehman Brothers. (ii) As to certificates of deposit and bankers’ acceptances: the face amount thereof, plus accrued interest thereon; and (iii) As to any investment not specified above: the value thereof established by prior agreement among the District, the Trustee, and the Certificate Insurer.

Prepayment Fund means the fund by that name established in the Trust Agreement.

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

Principal Corporate Trust Office means the principal corporate trust office of the Trustee in Los Angeles, California, or such other office as the Trustee may from time to time designate in writing to the District, the Corporation and the Owners.

Principal Fund means the fund by that name established in the Trust Agreement.

Rebate Fund means the fund by that name established in the Trust Agreement.

Record Date means, with respect to any Payment Date for a Certificate, the fifteenth day of the calendar month prior to such Payment Date.

Reserve Fund means the fund by that name established in the Trust Agreement.

Reserve Fund Policy means the surety bond issued by the Certificate Insurer guaranteeing certain payments into the Reserve Fund with respect to the Certificates as provided therein and subject to the limitations set forth therein.

Securities Depositories means: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses as such depositories may specify and/or such other securities depositories as the District may designate in a Written Request of the District delivered to the Trustee.

Special Counsel means any attorney at law or firm of attorneys selected by 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.

State means the State of California.

Statement of the Corporation or District means a statement signed by or on behalf of (i) the Corporation by its President or a Vice President or (ii) the District by the President and by the Secretary or by any two persons (whether or not members of the Board of Directors) who are specifically authorized by resolution of the District to sign or execute such a document on its behalf. If and to the extent required by the provisions of the Trust Agreement, each Statement of the Corporation or District will include the statements provided for in the Trust Agreement.

Tax Certificate means the Tax Certificate dated the initial date of execution and delivery of the Certificates, concerning certain matters pertaining to the use and investment of proceeds of the Certificates executed by and delivered to the District on the date of execution and delivery of the Certificates, including any and all exhibits attached thereto.

Trustee means Union Bank of California, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States of America having a principal corporate trust office in Los Angeles, California, or such other office as the Trustee may from time to time designate in writing to the District, the Corporation and the Owners, or its successor as Trustee under the Trust Agreement.

Written Consent of the Corporation or District, Written Order of the Corporation or District mean, respectively, a written consent, order, request or requisition signed by or on behalf of (i) the Corporation by its President or a Vice President or (ii) the District by the President or General Manager or its Finance Director or by the Secretary or by any two persons (whether or not members of the Board of Directors) who are specifically authorized by resolution of the District to sign or execute such a document on its behalf.

## CERTIFICATES; TERMS AND PROVISIONS

Transfer of Certificates. Any Certificate may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of the Trust Agreement, by the person in whose name it is registered, in person or by such person's duly authorized attorney, upon surrender of such Certificate for cancellation at the Principal Corporate Trust Office of the Trustee, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee.

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

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

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

Certificate Registration Books. The Trustee will keep or cause to be kept, at the office of the Trustee in Los Angeles, California, sufficient books for the registration and transfer of the Certificates, which will upon reasonable prior notice and at all reasonable times be open to inspection by the Corporation or the District; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Certificates as provided above.

The person in whose name any Certificate is registered will be deemed the Owner thereof for all purposes of the Trust Agreement, and payment of or on account of the interest with respect to and principal of and Prepayment Price represented by such Certificate will be made only to or upon the order in writing of such registered Owner, which payments will be valid and effectual to satisfy and discharge liability upon such Certificate to the extent of the sum or sums so paid.

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

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

been selected for prepayment, the Trustee may make payment of such Certificate upon receipt of indemnity satisfactory to the Trustee.

### VALIDITY OF CERTIFICATES

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

### PREPAYMENT OF CERTIFICATES

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

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

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

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

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

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

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

## INSTALLMENT PAYMENTS

Pledge and Deposit of Installment Payments. The Installment Payments are irrevocably pledged to, and will be used for, the punctual payment of the Certificates, and the Installment Payments will not be used for any other purpose while any of the Certificates remain Outstanding. Such pledge will constitute a first and exclusive lien on the Installment Payments in accordance with the terms of the Trust Agreement.

All Installment Payments to which the Corporation may at any time be entitled (including income or profit from investments pursuant to the Trust Agreement) will be paid directly to the Trustee pursuant to the terms of the Assignment Agreement, and if received by the Corporation at any time will be deposited by the Corporation with the Trustee within one business day after the receipt thereof, and the Trustee will deposit all Installment Payments as and when received in the Certificate Payment Fund. All moneys at any time deposited in the Certificate Payment Fund will be held by the Trustee in trust for the benefit of the Owners from time to time of the Certificates, but will nevertheless be disbursed, allocated and applied solely for the uses and purposes set forth in the Trust Agreement.

Certificate Payment Fund. There is established with the Trustee each of the Certificate Payment Fund and the Reserve Fund each of which the Trustee covenants to maintain and hold in trust separate and apart from other funds held by it so long as any Installment Payments remain unpaid. All moneys on deposit in the Certificate Payment Fund (including income or profit from investments) will be retained therein except as expressly provided in the Trust Agreement.

The Trustee will transfer from the Certificate Payment Fund the following amounts at the times and in the manner provided in the Trust Agreement, and will deposit such amounts in one or more of the following respective funds, each of which the Trustee will establish and maintain and hold in trust separate and apart from other funds held by it, and each of which will be disbursed and applied only as authorized in the Trust Agreement. Such amounts will be so transferred to and deposited in the following respective funds in the following order of priority, the requirements of each such fund at the time of deposit to be satisfied before any transfer is made to any fund subsequent in priority:

Interest Fund. The Trustee, on the last business day before each Interest Payment Date (commencing on the last business day of December, 2006), will deposit in the Interest Fund an amount representing the portion of the Installment Payments designated as interest coming due on

the next succeeding January 1 or July 1, as the case may be. No deposit need be made into the Interest Fund so long as there will be in such fund moneys sufficient to pay the interest portion of Certificates then Outstanding due, if any, on the next January 1 or July 1, as the case may be.

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

Principal Fund. The Trustee, on the last business day before each July 1 (commencing on the last business day of June, 2007), will deposit in the Principal Fund an amount equal to the principal coming due with respect to the Certificates on the next succeeding July 1. No deposit need be made into the Principal Fund so long as there will be in such fund moneys sufficient to pay the portion of all Certificates then Outstanding designated as principal, and coming due on the next succeeding July 1.

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

Prepayment Fund. Moneys to be used for prepayment pursuant to the Trust Agreement and paid by the District pursuant to the Installment Purchase Agreement will be transferred by the Trustee from the Certificate Payment Fund and deposited in the Prepayment Fund on the prepayment date specified in the Written Request of the District filed with the Trustee pursuant to the Installment Purchase Agreement. Said moneys will be set aside in the Prepayment Fund solely for the purpose of prepaying the Certificates in advance of their respective stated maturities and will be applied on or after the date specified for prepayment pursuant to the Trust Agreement to the payment of the Prepayment Price with respect to the Certificates to be prepaid upon presentation and surrender of such Certificates.

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

In the absence of written investment direction from the District, the Trustee will invest moneys held by it solely in Permitted Investments specified in clause (b)(5) of the definition thereof.

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

Subject to the further provisions of the Trust Agreement, the Trustee may sell or present for prepayment any obligations so purchased at the direction of the District whenever it will be necessary in order to provide moneys to meet any payment, and the Trustee will not be liable or responsible for any loss resulting from such investment. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of any investment and should be entitled to its customary fee therefor.

The Trustee may commingle any of the funds or accounts established pursuant to the Trust Agreement into a separate fund or funds for investment purposes only; provided, however, that all funds or accounts held by the Trustee under the Trust Agreement will be accounted for separately notwithstanding such commingling.

Reserve Fund. The Trustee will deposit in the Reserve Fund the amounts required to be deposited therein pursuant to the Installment Purchase Agreement and the Trust Agreement and apply moneys in the Reserve Fund in accordance with the Trust Agreement.

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

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

The obligation to reimburse for any draws upon the Reserve Fund Policy will be subordinate to the payment of the Installment Payments. The right of the Certificate Insurer to reimbursement for any draws on the Reserve Fund Policy from amounts paid by the District for deposit in the Reserve Fund will be senior to cash replenishment of the Reserve Fund, which will be senior to payment to the Certificate Insurer of any interest on amounts advanced under the Reserve Fund Policy.

Pledge of Moneys in Funds. All amounts on deposit in the Delivery Cost Fund, the Certificate Payment Fund, the Interest Fund, the Principal Fund, the Prepayment Fund and the Reserve Fund are irrevocably pledged to the Owners of the Certificates as provided in the Trust Agreement. Such pledge will constitute a first and exclusive lien on the Delivery Cost Fund, the Certificate Payment Fund, the Interest Fund, the Principal Fund, the Prepayment Fund and the Reserve Fund for the benefit of the Owners of the Certificates in accordance with the terms in the Trust Agreement and of the Installment Purchase Agreement.

Payments under the Bond Insurance Policy. As long as the Bond Insurance Policy will be in full force and effect, the District and the Trustee agree to comply with the following provisions:

(a) At least one (1) business day prior to all Payment Dates the Trustee will determine whether there will be sufficient funds in the funds and accounts to pay the principal of or interest

with respect to the Certificates on such Payment Date. If the Trustee determines that there will be insufficient funds in such funds or accounts, the Trustee will so notify the Certificate Insurer. Such notice will specify the amount of the anticipated deficiency, the Certificates to which such deficiency is applicable and whether such Certificates will be deficient as to principal or interest, or both. If the Trustee has not so notified the Certificate Insurer at least one (1) business day prior to a Payment Date, the Certificate Insurer will make payments of principal or interest due with respect to the Certificates on or before the first (1st) business day next following the date on which the Certificate Insurer will have received notice of nonpayment from the Trustee.

(b) The Trustee will, after giving notice to the Certificate Insurer as provided in (a) above, make available to the Certificate Insurer and, at the Certificate Insurer's direction, to The Bank of New York, in New York, New York, as insurance trustee for the Certificate Insurer or any successor insurance trustee (the "Insurance Trustee"), the registration maintained by the Trustee and all records relating to the funds and accounts maintained thereunder;

(c) The Trustee will provide the Certificate Insurer and the Insurance Trustee with a list of registered owners of Certificates entitled to receive principal or interest payments from the Certificate Insurer under the terms of the Bond Insurance Policy, and will make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of Certificates entitled to receive full or partial interest payments from the Certificate Insurer and (ii) to pay principal upon Certificates surrendered to the Insurance Trustee by the registered owners of Certificates entitled to receive full or partial principal payments from the Certificate Insurer;

(d) The Trustee will, at the time it provides notice to the Certificate Insurer pursuant to (a) above, notify registered owners of Certificates entitled to receive the payment of principal or interest thereon from the Certificate Insurer (i) as to the fact of such entitlement, (ii) that the Certificate Insurer will remit to them all or a part of the interest payments next coming due upon proof of Certificate Owner entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the registered owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Certificate Insurer, they must surrender their Certificates (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Certificates to be registered in the name of the Certificate Insurer) for payment to the Insurance Trustee, and not the Trustee, and (iv) that should they be entitled to receive partial payment of principal from the Certificate Insurer, they must surrender their Certificates for payment thereon first to the Trustee who will note on such Certificates the portion of the principal paid by the Trustee and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) In the event that the Trustee has notice that any payment of principal of or interest with respect to a Certificate which has become Due for Payment and which is made to a Certificate Owner by or on behalf of the District has been deemed a preferential transfer and theretofore recovered from its registered 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 will at the time the Certificate Insurer is notified pursuant to (a) above, notify all registered owners that in the event that any registered owner's payment is so recovered, such registered owner will be entitled to payment from the Certificate Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee will furnish to the Certificate Insurer its records evidencing the payments of principal of and interest with respect to the

Certificates which have been made by the Trustee and subsequently recovered from registered owners and the dates on which such payments were made.

(f) In addition to those rights granted the Certificate Insurer hereunder, the Certificate Insurer will, to the extent it makes payment of principal or interest with respect to the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee will note the Certificate Insurer's rights as subrogee on the registration books of the District maintained by the Trustee upon receipt from the Certificate Insurer of proof of the payment of interest thereon to the registered owners of the Certificates, and (ii) in the case of subrogation as to claims for past due principal, the Trustee will note the Certificate Insurer's rights as subrogee on the registration books of the District maintained by the Trustee upon surrender of the Certificates by the registered owners thereof together with proof of the payment of principal thereof.

## COVENANTS

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

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

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

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

Tax Covenants. Notwithstanding any other provision of the Trust Agreement, absent an opinion of Special Counsel that the exclusion from gross income of interest with respect to the Certificates will not be adversely affected for federal income tax purposes, the District will 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:

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 moneys or property which would cause the Certificates to be “private activity bonds” within the meaning of Section 141 of the Code.

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 Certificates to be “arbitrage bonds” within the meaning of Section 148 of the Code.

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 Certificates to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

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.

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

Miscellaneous. The District will take no action inconsistent with its expectations stated in any Tax Certificate executed with respect to the Certificates and will comply with the covenants and requirements stated therein and incorporated by reference in the Trust Agreement.

The covenants set forth therein under the caption “COVENANTS OF THE DISTRICT – TAX COVENANTS” will not be applicable to, and nothing contained therein will be deemed to prevent the District from causing the Trustee to execute and deliver, Certificates the interest with respect to which has been determined by Special Counsel to be subject to federal income taxation.

Accounting Records and Reports. The Trustee will keep or cause to be kept proper books of record and account in which complete and correct entries will be made of all transactions made by it relating to the receipts, disbursements, allocation and application of the Installment Payments, and such books will be available upon reasonable prior notice for inspection by the District and by any Owner of Certificates, or his agent or representative, at reasonable hours and under reasonable conditions. Each month, so long as the Certificates are Outstanding, the Trustee will furnish to the District a statement covering receipts, disbursements, allocation and application of amounts on deposit in the funds and accounts created under the Trust Agreement held by it.

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

Observance of Laws and Regulations. To the extent necessary to assure their performance under the Trust Agreement, the Corporation and the District will well and truly keep, observe and perform all valid and lawful obligations or regulations imposed on them by contract, or prescribed by any law of the United States of America, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right,

privilege or franchise now owned or hereafter acquired by the Corporation or the District, respectively, including its right to exist and carry on its business, to the end that such contracts, rights and franchises will be maintained and preserved, and will not become abandoned, forfeited or in any manner impaired.

Compliance with Contracts. The District will comply with the terms, covenants and provisions, express or implied, of all contracts for the use of the Project by the District, and all other contracts and agreements affecting or involving the Project to the extent that the District is a party thereto.

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

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

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

Notwithstanding anything to the contrary above, the Trustee will have no duty or liability whatsoever to monitor or notify any party with respect to the timeliness, sufficiency or validity of any such recording, re-recording, filing, filing of continuation statements and the like with respect to the Trust Agreement; it being expressly understood and agreed that the Trustee's duties under the Trust Agreement will be exclusively limited to following the express written filing or recording

instructions of the District, from time to time with respect to the above described actions so long as the District will supply said recording or filing instruments.

Eminent Domain. If all or any part of the Water System is be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain), the Net Proceeds therefrom will be applied in the manner specified in the Installment Purchase Agreement.

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

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

#### DEFAULT AND LIMITATION OF LIABILITY

Notice of Non-Payment. In the event of delinquency in the payment of any Installment Payments due by the District pursuant to the Installment Purchase Agreement, the Trustee will, after one business day following the date upon which such delinquent Installment Payment was due, as soon as practicable give written notice of the delinquency and the amount of the delinquency to the District and the Corporation.

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

Anything in the Trust Agreement to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default as defined therein, the Certificate Insurer will be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Trust Agreement, including without limitation: (i) the right to accelerate the principal of the Certificates as described in the Trust Agreement , and (ii) the right to annul any declaration of acceleration, and the Certificate Insurer will also be entitled to approve all waivers of default..

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

Other Remedies of the Trustee. The Trustee will have the right with the written consent of the Certificate Insurer so long as the Bond Insurance Policy is in full force and effect, (a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any board member, officer or employee thereof, and to compel the District or any such board member, officer or employee to perform or carry out its or his duties under law and the agreements and covenants required to be performed by it or him contained in the Trust Agreement; (b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or (c) by suit in equity upon the happening of any default under the Trust Agreement to require the District and its directors, officers and employees to account as the trustee of an express trust. So long as the Bond Insurance Policy is in full force and effect and the Certificate Insurer has not defaulted on its obligations thereunder, any reorganization or liquidation plan with respect to the District must be acceptable to the Certificate Insurer and the Certificate Insurer will have the right to vote on behalf of the Owners of Certificates.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee will not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract will impair any such right or remedy or will be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by the Trust Agreement may be enforced and exercised from time to time and as often as will be deemed expedient by the Trustee.

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

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy will be cumulative and will be in addition to every other remedy given under the Trust Agreement existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law.

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

Trustee Appointed Agent for Certificate-owners: Direction of Proceedings. The Trustee is appointed the agent and attorney of the Owners of all Certificates outstanding under the Trust Agreement for the purpose of filing any claims relating to the Certificates. The Owners of a majority in aggregate principal amount of the Certificates Outstanding under the Trust Agreement will, upon tender to the Trustee of reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such direction, have the right to direct the method and place of conducting all remedial proceedings by the Trustee, provided such direction will be in accordance with law and the provisions of the Trust Agreement and that the Trustee will have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Certificate-owners not parties to such a direction.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, will have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Trust Agreement, whether upon its own discretion or upon the request of the Owners of a majority in aggregate principal amount of the Certificates then outstanding pursuant to the Trust Agreement, it will have full power, in the exercise of its discretion for the best interests of the Owners of the Certificates, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee will not, unless there no longer continues an Event of Default under the Trust Agreement, discontinue, withdraw, compromise or settle, or otherwise dispose of, any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of at least a majority in principal amount of the Certificates Outstanding under the Trust Agreement opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Limitation on Certificate-owners' Right to Sue. No Owner of any Certificate executed and delivered under the Trust Agreement will have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (a) such Owner will have previously given to the Trustee written notice of the occurrence of an Event of Default thereunder; (b) the Owners of at least a majority in aggregate principal amount of all the Certificates then Outstanding will have made written request upon the Trustee to exercise the powers granted or to institute such action, suit or proceeding in its own name; (c) said Owners will have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee will have refused or omitted to comply with such request for a period of sixty (60) days after such written request will have been received by, and said tender of indemnity will have been made to, the Trustee.

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

The right of any Owner of any Certificate to receive payment of the principal of (and premium, if any) and interest with respect to such Certificate, as provided in the Trust Agreement, on and after the respective due dates expressed in such Certificate, or to institute suit for the enforcement of any such payment on or after such respective dates, will not be impaired or affected

without the consent of such Owner, notwithstanding the foregoing provisions of this paragraph or any other provision of the Trust Agreement.

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

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

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

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

## THE TRUSTEE

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

The District may, by written request to the Trustee, remove the Trustee and appoint a successor Trustee; provided, however, that if the District is in default under the Installment Purchase Agreement, the Owners of a majority in aggregate principal amount of all Certificates Outstanding may, by written request to the Trustee, remove the Trustee and appoint a successor Trustee. Any such

successor will be a bank or trust company in good standing located in or incorporated under the laws of California, duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than \$75,000,000 and acceptable to the Certificate Insurer . If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Trust Agreement the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may be removed at any time, at the request of the Certificate Insurer, for any breach under the Trust Agreement.

The Trustee may at any time resign by giving written notice to the District and the Certificate Insurer, and by giving to the Certificate Owners notice of such resignation by mail at the addresses shown on the registration books maintained by the Trustee. Upon receiving such notice of resignation, the District will promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event that the District does not appoint a successor Trustee within thirty (30) days following receipt of such notice of resignation, the resigning Trustee may at the expense of the District petition the appropriate court having jurisdiction to appoint a successor Trustee. Notwithstanding any other provision of the Trust Agreement, no removal, resignation or termination of the Trustee will take effect until a successor, acceptable to the Certificate Insurer, will be appointed. Any resignation or removal of the Trustee and appointment of a successor Trustee will become effective upon written acceptance of appointment by the successor Trustee.

Protection of the Trustee. The Trustee will be protected and will incur no liability whatsoever in acting or refraining from acting or proceeding in good faith upon any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition or other paper or document which it will in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of the Trust Agreement, and the Trustee will be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee will not be bound to recognize any person as an Owner of any Certificate or to take any action at the request of any such person unless such Certificate will be deposited with the Trustee or satisfactory evidence of the ownership of such Certificate will be furnished to the Trustee. The Trustee may consult with counsel, who may be counsel to the Corporation or the District, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Trust Agreement in good faith in accordance therewith.

Whenever in the administration of its duties under the Trust Agreement, the Trustee will deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, such matter (unless other evidence in respect thereof be therein specifically prescribed) will be deemed to be conclusively proved and established by a certificate of the Corporation or the District and such certificate will be full warranty to the Trustee for any action taken or suffered under the provisions of the Trust Agreement upon the faith thereof, but in its discretion the Trustee may (but will have no duty), in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Certificates provided pursuant to the Trust Agreement, and may join in any action which any Owner may be entitled to take with like

effect as if the Trustee were not a party to the Trust Agreement. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the District or the Corporation, and may act as depository, trustee, or agent for any committee or body of Owners of Certificates or of obligations of the Corporation or the District as freely as if it were not Trustee under the Trust Agreement.

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

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

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

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

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

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

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

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

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

## AMENDMENT OF TRUST AGREEMENT

### Amendments Permitted.

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

(b) The Trust Agreement and the rights and obligations of the Corporation and the District and of the Owners of the Certificates may also be modified or amended at any time by an amendment thereto which will become binding upon adoption, without the consent of the Owners of any Certificates, but only to the extent permitted by law and only for any one or more of the following purposes: (i) to add to the covenants and agreements of the Corporation or the District contained in the Trust Agreement other covenants and agreements thereafter to be observed or to surrender any right or power therein reserved to or conferred upon the Corporation or the District, and which will not adversely affect the interests of the Owners of the Certificates; (ii) to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement or in regard to questions arising under the Trust Agreement, as the Corporation or the District may deem necessary or desirable and which will not adversely affect the interests of the Owners of the Certificates; and (iii) to make such other amendments or modifications as may be in the best interests of the Owners of the Certificates.

The Trustee will promptly upon execution and delivery of any amendment pursuant to clause (b) above send by first class mail a copy of such amendment to the Certificate Insurer.

Unless otherwise provided in the Trust Agreement, the Certificate Insurer's consent will be required in addition to Owner consent, when required, for the following purposes: (i) execution and delivery of any supplement hereto or any amendment, supplement or change to or modification of the Installment Purchase Agreement or the Assignment Agreement, (ii) removal of the Trustee and

selection and appointment of any successor trustee, and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Owner consent.

Any provision of the Trust Agreement expressly recognizing or granting rights in or to the Certificate Insurer may not be amended in any manner which affects the rights of the Certificate Insurer thereunder without the prior written consent of the Certificate Insurer. The Certificate Insurer reserves the right to charge the District a fee for any consent or amendment to the Trust Agreement so long as the Bond Insurance Policy is in full force and effect and the Certificate Insurer will not have defaulted on its obligation thereunder.

Endorsement or Replacement of Certificates After Amendment or Supplement. After the effective date of any action taken as provided in the Trust Agreement, the Trustee may determine that the Certificates may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case upon demand of the Trustee to the Owner of any Outstanding Certificate and presentation of such Owner's Certificate for such purpose at the principal corporate trust office of the Trustee a suitable notation as to such action will be made on such Certificate. If the Trustee will so determine, new Certificates so modified as in the opinion of the Trustee will be necessary to conform to such action will be prepared, and in that case upon demand of the Trustee to the Owner of any Outstanding Certificates such new Certificates will be exchanged at the principal corporate trust office of the Trustee without cost to each Owner for Certificates then Outstanding upon surrender of such Outstanding Certificates.

Amendment of Particular Certificates. The provisions of the Trust Agreement will not prevent any Owner from accepting any amendments to the particular Certificates held by him or her, provided that due notation thereof is made on such Certificates.

#### DEFEASANCE

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

Notwithstanding anything in the Trust Agreement to the contrary, in the event that the principal of or interest due with respect to the Certificates will be paid by the Certificate Insurer

pursuant to the Bond Insurance Policy, the Certificates will remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the District, and the assignment and pledge of the this Agreement and all covenants, agreements and other Certificates of the District to the Owners will continue to exist and will run to the benefit of the Certificate Insurer , and the Certificate Insurer will be subrogated to the rights of such Owners.

If moneys or securities described in clause (i) (a) or (d) of the definition of Permitted Investments are deposited with and held by the Trustee as provided in the Trust Agreement, the Trustee will within thirty (30) days after such moneys or Permitted Investments will have been deposited with it, mail a notice, first class postage prepaid, to the Owners at the addresses listed on the registration books kept by the Trustee pursuant to the Trust Agreement, setting forth (a) the date fixed for prepayment of the Certificates, (b) a description of the moneys or securities described in clause (i) (a) or (d) of the definition of Permitted Investments so held by it, and (c) that the Trust Agreement has been released in accordance with the provisions of the Trust Agreement.

Deposit of Money or Securities with Trustee. Whenever in the Trust Agreement or the Installment Purchase Agreement it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or prepay any Certificates, the money or securities to be so deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Trust Agreement and will be (a) lawful money of the United States of America in an amount equal to the principal amount represented by such Certificates and all unpaid interest represented thereby to maturity, except that, in the case of Certificates which are to be prepaid prior to maturity and in respect of which notice of such prepayment will have been given as in the Trust Agreement provided or provision satisfactory to the Trustee will have been made for the giving of such notice, the amount to be deposited or held will be the principal amount or Prepayment Price and all unpaid interest to such date of prepayment if any, represented by such Certificates; or (b) non-callable securities described in clause (i) (a) or (d) of the definition of Permitted Investments which will provide money sufficient to pay the principal at maturity or upon prepayment plus all accrued interest to maturity or to the prepayment date, as the case may be, represented by the Certificates to be paid or prepaid, as such amounts become due, plus premium, if any, provided that, in the case of Certificates which are to be prepaid prior to the maturity thereof, notice of such prepayment will have been given as in the Trust Agreement provided or provision satisfactory to the Trustee will have been made for the giving of such notice; provided, in each case, that the Trustee will have been irrevocably instructed (by the terms of the Trust Agreement and the Installment Purchase Agreement or by Written Request of the District) to apply such money or securities to the payment of such principal or Prepayment Price and interest represented by such Certificates.

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

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

## MISCELLANEOUS

Benefits of Trust Agreement Limited to Parties. Nothing contained in the Trust Agreement, expressed or implied, is intended to give to any person other than the District, the Certificate Insurer, the Trustee, the Corporation and the Owners any claim, remedy or right under or pursuant thereto, and any agreement, condition, covenant or term required therein to be observed or performed by or on behalf of the District will be for the sole and exclusive benefit of the Trustee, the Corporation and the Owners. To the extent the Trust Agreement confers upon or gives or grants to the Certificate Insurer any right, remedy or claim or by reason of this Agreement, the Certificate Insurer is thereunder explicitly recognized as being a third-party beneficial thereunder and may enforce any such right, remedy or claim conferred, given or granted thereunder.

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

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

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

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

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

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

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

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

Funds and Accounts. Any fund required by the Trust Agreement to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds will at all times be maintained in accordance with sound industry practices and with due regard for the protection of the security of the Certificates and the rights of every Owner thereof.

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

California Law. THE TRUST AGREEMENT WILL BE CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE.

Rights of the Certificate Insurer. The rights granted to the Certificate Insurer under the Trust Agreement or the Installment Purchase Agreement to request, consent to or direct any action are rights granted to the Certificate Insurer in consideration of the issuance of the Bond Insurance Policy. Any exercise by the Certificate Insurer of such rights is merely an exercise of the Certificate Insurer's contractual rights and will not be construed or deemed to be taken for the benefit or on behalf of the Owner nor does such action evidence any position of the Certificate Insurer, positive or negative, as to whether Owner consent is required in addition to consent of the Certificate Insurer.

While the Bond Insurance Policy is in effect the Trustee will furnish to the surveillance department of the Certificate Insurer a copy of any notice to be given to the registered Owners of the Certificates, including, without limitation, notice of any prepayment of an defeasance of Certificates, and any certificate rendered pursuant to the Trust Agreement relating to the security for the Certificates.

The Trustee will notify the Certificate Insurer of any failure of the District to provide relevant notices, certificates, etc.

## APPENDIX C

### FORM OF OPINION OF SPECIAL COUNSEL

Upon execution and delivery of the Certificates, Stradling Yocca Carlson & Rauth, a Professional Corporation, Special Counsel, proposes to render its final approving opinion in substantially the following form:

June \_\_, 2006

Carpinteria Valley Water District  
1301 Santa Ynez Avenue  
Carpinteria, CA 93013

Members of the Board of Directors:

We have acted as Special Counsel to the Carpinteria Valley Water District (the "District") in connection with the execution and delivery of \$\_\_\_\_\_ aggregate principal amount of Refunding Revenue Certificates of Participation, Series 2006A, dated the date hereof (the "Certificates"), each evidencing and representing an interest of the registered owner thereof in the right to receive Installment Payments (as that term is defined in the Trust Agreement hereinafter mentioned) under and pursuant to that certain Installment Purchase Agreement (the "Agreement"), dated as of April 1, 2006, by and between the District and the Carpinteria Valley Water District Financing Corporation (the "Corporation"), which right to receive such Installment Payments has been assigned by the Corporation to Union Bank of California, N.A., as trustee (the "Trustee"), pursuant to the Assignment Agreement, dated as of April 1, 2006, by and between the Trustee and the Corporation. The Certificates have been executed by the Trustee pursuant to the terms of the Trust Agreement, dated as of April 1, 2006 (the "Trust Agreement"), by and among the District, the Corporation and the Trustee.

In connection with our representation we have examined a certified copy of the proceedings relating to the Certificates. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth herein, we are of the opinion that:

1. The proceedings show lawful authority for the execution and delivery by the District of the Agreement and the Trust Agreement under the laws of the State of California now in force, and the Agreement and the Trust Agreement have been duly authorized, executed and delivered by the District, and, assuming due authorization, execution and delivery by the Trustee and the Corporation, as appropriate, are valid and binding obligations of the District enforceable against the District in accordance with their respective terms.

2. The Certificates, assuming due execution and delivery by the Trustee, are entitled to the benefits of the Trust Agreement.

3. The obligation of the District to make the Installment Payments from Net Revenues (as defined in the Agreement) is an enforceable obligation of the District and does not constitute a debt of the District, or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation.

4. The District's obligation under the Agreement to pay the Installment Payments from Net Revenues is subordinate to the District's obligation to make payments with respect to a Water Supply Agreement, dated as of August 1, 1991, between the District and the Central Coast Water Authority and is on a parity with the obligation of the District to make payments (i) under an installment purchase agreement, dated as of May 1, 2000, by and between the District and the Carpinteria Valley Water District Financing Corporation, (ii) with the obligation of the District to make payments under a joint loan contract dated March 19, 2004, by and between the Department of Water Resources, the District, and the Montecito Water District, (iii) with the obligation of the District to make payments under a loan agreement dated February 9, 2004, by and between the Department of Water Resources and the District, and (iv) with the obligation of the District to make payments under a Joint Participation Agreement, dated as of June 1, 1993, and as amended by Amendment No. 1 to the Joint Participation Agreement dated April 1, 2004, by and between the District and the Cachuma Operation and Maintenance Board and other Bonds or Contracts outstanding from time to time.

5. Under existing statutes, regulations, rulings and judicial decisions, the portion of each Installment 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; however, it should be noted that, with respect to corporations, the portion of each Installment 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 corporations.

6. The portion of each Installment Payment constituting interest is exempt from State of California personal income tax.

7. The difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificates of a 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 a Certificate Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Certificate Owner will increase the Owner's basis in the applicable Certificate. Original issue discount that accrues to the Certificate Owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

8. The amount by which a Certificate Owner's original basis for determining loss on sale or exchange in the applicable Certificate (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Certificate premium, which must be amortized under Section 171 of the Code; such amortizable Certificate premium reduces the Certificate Owner's basis in the applicable Certificate (and the amount of tax-exempt interest

received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Certificate premium may result in a Certificate Owner realizing a taxable gain when a Certificate is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Certificate to the Owner.

The opinions expressed herein as to the exclusion from gross income of the portion 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 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 such portion of each Installment 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 portion of each Installment 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.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Trust Agreement, the Agreement and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Special Counsel is provided with respect thereto. No opinion is expressed herein as to the exclusion from gross income of the portion of each Installment Payment constituting interest (and original issue discount) for federal income tax purposes with respect to any Certificate if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Certificates.

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

Respectfully submitted,

**APPENDIX D**  
**FORM OF BOND INSURANCE POLICY**

## APPENDIX E

### INFORMATION CONCERNING DTC

*The information concerning DTC set forth herein has been supplied by DTC, and the District assumes no responsibility for the accuracy thereof.*

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (“Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. “Direct Participants” include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Prepayment notices shall be sent to Cede & Co. If less than all of the Certificates within an issue are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Certificates. Under its usual procedures, DTC mails 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 Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Certificates will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on a payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to DTC are the responsibility of the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

The District and the Trustee cannot and do not give any assurances that DTC Direct Participants or DTC Indirect Participants will distribute to the Beneficial Owners (i) principal and interest with respect to the Certificates, (ii) certificates representing an ownership interest in or other confirmation of ownership interests in the Certificates, or (iii) prepayment or other notices sent to DTC or Cede & Co., its nominee, as registered owner of the Certificates, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will service and act in the manner described in the Official Statement.

The District and the Trustee shall be entitled to treat the person in whose name any Certificate is registered as the Certificate Owner thereof for all purposes of the Trust Agreement and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the District; and the District and the Trustee shall have no responsibility for transmitting payments to, communication with, notifying, or otherwise dealing with any Beneficial Owners of the Certificates. Neither the District nor the Trustee will have any responsibility or obligations, legal or otherwise, to the Beneficial Owners or to any other party including DTC or its successor (or substitute depository or its successor), except for the registered owner of any Certificate.

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving 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 TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE CERTIFICATES, WILL SEND ANY NOTICE OF PREPAYMENT OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE PREPAYMENT OF THE CERTIFICATES CALLED FOR PREPAYMENT OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

## APPENDIX F

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Carpinteria Valley Water District (the “District”) in connection with the execution and delivery of \$\_\_\_\_\_ Refunding Revenue Certificates of Participation, Series 2006A (the “Certificates”). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of April 1, 2006 (the “Trust Agreement”), by and among the District, the Carpinteria Valley Water District Financing Corporation (the “Corporation”) and Union Bank of California, N.A., as trustee (the “Trustee”). The District covenants and agrees as follows:

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

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

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

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

“Fiscal Year” shall mean the one-year period ending on the last day of June of each year.

“Holder” means a registered owner of the Certificates.

“Installment Purchase Agreement” shall mean that certain Installment Purchase Agreement executed and entered into as of April 1, 2006, by and between the District and the Corporation.

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

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The Current National Repositories approved by the Securities and Exchange Commission are included in a list which is maintained on the internet at: <http://www.sec.info/municipal/nrmsir.htm>.

“Participating Underwriter” shall mean any of the original underwriters of the Certificates required to comply with the Rule in connection with offering of the Certificates.

“Repository” shall mean each National Repository and each State Repository.

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

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

3. Provision of Annual Reports.

(a) The District shall provide not later than 270 days following the end of its Fiscal Year (commencing with the Fiscal Year 2006) to each Repository and to the Insurer an Annual Report relating to the immediately preceding Fiscal Year which is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate.

(b) If the District is unable to provide to each Repository an Annual Report by the date required in subsection (a), the District shall send to each Repository and to the Insurer a notice in substantially the form attached hereto as Exhibit A.

4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) The audited financial statements of the District for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 4(1), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Principal amount of the Certificates outstanding.

(c) Balance in the Reserve Fund and a statement of the reserve requirement with respect thereto.

(d) An update of the information in the following tables or paragraphs under caption entitled “THE DISTRICT” in the Official Statement:

1. “Historic Water Connections and Sales Revenues” on page \_\_\_;
2. “Historic Water Deliveries and Sources” on page \_\_\_;
3. “Largest Customers” on page \_\_\_;
4. “Water System Rates and Charges” on page \_\_\_;
5. “Connection Fees” on page \_\_\_;
6. “Historic Operating Results and Debt Service Coverage” on page \_\_\_.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to each of the Repositories; provided, that if any document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board; and provided further, that the District shall clearly identify each such document so included by reference.

5. Reporting of Significant Events.

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

1. principal and interest payment delinquencies.
2. non-payment related defaults.
3. unscheduled draws on the credit enhancements reflecting financial difficulties.
4. unscheduled draws on the debt service reserves reflecting financial difficulties.
5. substitution of the 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 rights of Certificateholders.
8. optional, contingent or unscheduled Certificate calls.
9. defeasances.
10. release, substitution or sale of property securing repayment of the Certificates.
11. rating changes.

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

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Certificates pursuant to the Trust Agreement.

6. Customarily Prepared and Public Information. Upon request, the District shall provide to any person financial information and operating data regarding the District which is customarily prepared by the District and is publicly available.

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

8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

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

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

11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Dated: \_\_\_\_\_, 2006

CARPINTERIA VALLEY WATER DISTRICT

By: \_\_\_\_\_  
Its: President of the Board of Directors

**EXHIBIT A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Obligor: CARPINTERIA VALLEY WATER DISTRICT

Name of Issue: REFUNDING REVENUE CERTIFICATES OF PARTICIPATION, SERIES 2006A

Date of Execution and Delivery: JUNE \_\_, 2006

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Certificates as required by the Continuing Disclosure Certificate approved pursuant to a Resolution adopted by the Board of Directors of the District on April 25, 2006. The District anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

CARPINTERIA VALLEY WATER DISTRICT

By \_\_\_\_\_