

*In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Special Counsel, under existing statutes, regulations, rulings and court decisions, and assuming compliance with the tax covenants described herein, the interest component of each Installment Payment, and the allocable portion thereof distributable in respect of any Revenue Obligation, is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. It is also the opinion of Special Counsel that under existing law interest on the Revenue Obligations is exempt from personal income taxes of the State of California. See, however, “TAX MATTERS” herein.*



**\$147,595,000**

**DTC Bond**

**ORANGE COUNTY SANITATION DISTRICT  
WASTEWATER REFUNDING REVENUE OBLIGATIONS  
SERIES 2011A**

**Dated: Date of Delivery**

**Due: as shown on the inside cover**

The \$147,595,000 Orange County Sanitation District Wastewater Refunding Revenue Obligations Series 2011A (the “Revenue Obligations”) are certificates of participation that evidence direct, fractional undivided interests of the Owners thereof in certain installment payments (the “Installment Payments”), and the interest thereon, to be made by the Orange County Sanitation District (the “District”) pursuant to the Installment Purchase Agreement, dated as of October 1, 2011 (the “Installment Purchase Agreement”), by and between the District and the Orange County Sanitation District Financing Corporation (the “Corporation”). Pursuant to the Master Agreement for District Obligations, dated as of August 1, 2000 (the “Master Agreement”), by and between the District and the Corporation, the District has established conditions and terms upon which obligations such as the Installment Payments, and the interest thereon, will be incurred and secured. Installment Payments under the Installment Purchase Agreement are payable solely from Net Revenues (as more fully described in the Master Agreement, the “Net Revenues”) as provided in the Installment Purchase Agreement, consisting primarily of all income and revenue received by the District from the operation or ownership of the Wastewater System of the District (the “Wastewater System”) remaining after payment of Maintenance and Operation Costs, as further described in “SECURITY AND SOURCES OF PAYMENT FOR THE REVENUE OBLIGATIONS” herein. The Installment Purchase Agreement provides that the obligation of the District to pay the Installment Payments, and payments of interest thereon, and certain other payments required to be made in accordance with the Installment Purchase Agreement, solely from Net Revenues, is absolute and unconditional. See “SECURITY AND SOURCES OF PAYMENT FOR THE REVENUE OBLIGATIONS” herein.

The proceeds of the Revenue Obligations will be used to (i) prepay \$89,800,000 in aggregate principal amount of the District’s Refunding Certificates of Participation, Series 2000-A and Series 2000-B, currently outstanding in the aggregate principal amount of \$181,700,000, and \$83,320,000 in aggregate principal amount of the District’s Certificates of Participation, Series 2003, currently outstanding in the aggregate principal amount of \$191,500,000 (collectively, the “Refunded Certificates”), and (ii) pay the costs incurred in connection with the execution and delivery of the Revenue Obligations. See “REFUNDING PLAN” herein.

Interest evidenced by the Revenue Obligations will be payable semiannually on February 1 and August 1 of each year, commencing on February 1, 2012. See “THE REVENUE OBLIGATIONS” herein. The Revenue Obligations initially will be delivered only in book-entry form and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Revenue Obligations. Individual purchases of the Revenue Obligations will be made in book-entry form only. Purchasers of Revenue Obligations will not receive physical certificates representing their ownership interests in the Revenue Obligations purchased. The Revenue Obligations will be delivered in denominations of \$5,000 and any integral multiple thereof. Payments of principal and interest evidenced by the Revenue Obligations are payable directly to DTC by Union Bank, N.A., as trustee (the “Trustee”). Upon receipt of payments of such principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Revenue Obligations. See APPENDIX E — “BOOK-ENTRY SYSTEM” herein.

THE OBLIGATION OF THE DISTRICT TO PAY THE INSTALLMENT PAYMENTS, AND THE INTEREST THEREON, AND OTHER PAYMENTS REQUIRED TO BE MADE BY IT UNDER THE INSTALLMENT PURCHASE AGREEMENT IS A SPECIAL OBLIGATION OF THE DISTRICT PAYABLE, IN THE MANNER PROVIDED IN THE INSTALLMENT PURCHASE AGREEMENT, SOLELY FROM NET REVENUES AND OTHER FUNDS PROVIDED FOR IN THE INSTALLMENT PURCHASE AGREEMENT, 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. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE INSTALLMENT PAYMENTS, OR THE INTEREST THEREON, OR OTHER PAYMENTS REQUIRED TO BE MADE UNDER THE INSTALLMENT PURCHASE AGREEMENT. SEE “SECURITY AND SOURCES OF PAYMENT FOR THE REVENUE OBLIGATIONS” HEREIN.

**This cover page contains information intended for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.**

*The Revenue Obligations are offered when, as and if executed and delivered and received by Merrill Lynch, Pierce, Fenner & Smith Incorporated, as the Initial Purchaser, subject to the approval of Fulbright & Jaworski L.L.P., Los Angeles, California, Special Counsel and Disclosure Counsel to the District, and certain other conditions. Certain legal matters will be passed upon for the District and the Corporation by Woodruff, Spradlin & Smart, a Professional Corporation, Costa Mesa, California. Public Resources Advisory Group, Los Angeles, California, has served as financial advisor to the District in connection with the execution and delivery of the Revenue Obligations. It is anticipated that the Revenue Obligations in definitive form will be available for delivery through the book-entry facilities of DTC on or about October 3, 2011.*

## MATURITY SCHEDULE

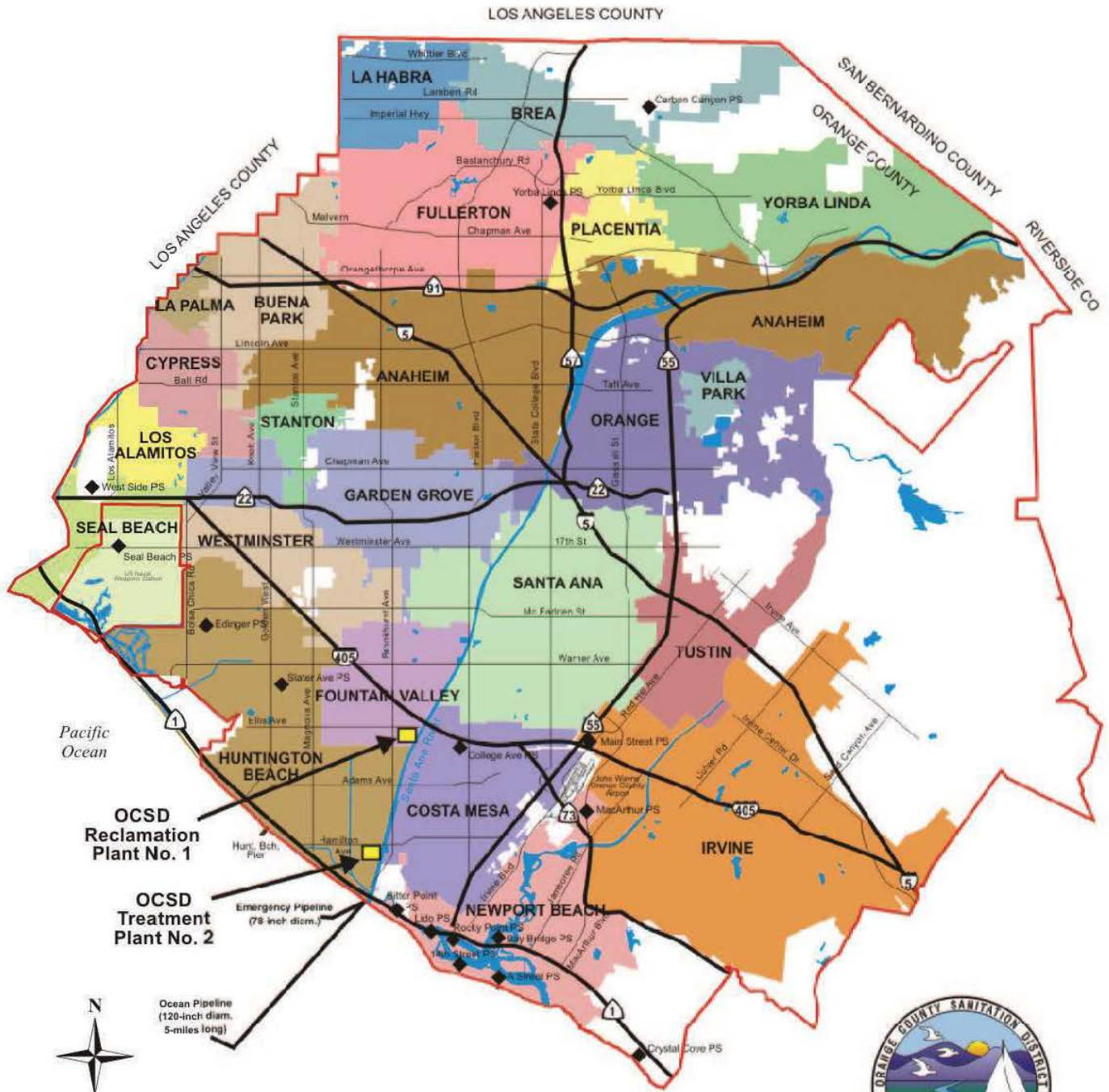
<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP<sup>†</sup></u> <u>(Base No. 68428T)</u>
August 1, 2012	\$ 7,400,000	3.00%	0.23%	102.289	AE7
August 1, 2013	9,850,000	3.00	0.34	104.842	AF4
August 1, 2014	9,055,000	4.00	0.45	109.963	AG2
August 1, 2015	9,825,000	5.00	0.60	116.624	AH0
August 1, 2016	15,135,000	5.00	0.95	119.065	AJ6
August 1, 2017	20,960,000	5.00	1.25	121.012	AK3
February 1, 2022	13,795,000	5.00	2.47	122.935	AL1
February 1, 2023	14,435,000	4.00	2.70	111.152 <sup>c</sup>	AM9
February 1, 2024	15,055,000	5.00	2.89	117.935 <sup>c</sup>	AN7
February 1, 2025	15,760,000	3.25	3.25	100.000	AP2
February 1, 2026	16,325,000	5.00	3.21	114.980 <sup>c</sup>	AQ0

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<sup>c</sup> Priced to the August 1, 2021 prepayment date at par.

<sup>†</sup> CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the District, the Initial Purchaser or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

# Orange County Sanitation District Service Area and Treatment Plant Locations in Orange County, California



0 1 2 3 miles  
Approximately — Map Not To Scale

- OCSD Service Area Boundary
- ◆ OCSD Pump Station (16 total)
- Unincorporated Areas (white)



Orange County Sanitation District (OCSD)  
Orange County, CA  
Rev. 2008

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# ORANGE COUNTY SANITATION DISTRICT

## Board of Directors

Larry Crandall — (Chair) — *Fountain Valley*

Troy Edgar — (Vice Chair) — *Los Alamitos*

Harry Sidhu — *Anaheim*

Roy Moore — *Brea*

Fred Smith — *Buena Park*

Prakash Narain — *Cypress*

Sharon Quirk-Silva — *Fullerton*

Bill Dalton — *Garden Grove*

Joe Carchio — *Huntington Beach*

Jeffrey Lalloway — *Irvine*

Tom Beamish — *La Habra*

Mark Waldman — *La Palma*

Steven Rosansky — *Newport Beach*

Jon Dumitru — *Orange*

Constance Underhill — *Placentia*

Sal Tinajero — *Santa Ana*

Michael Levitt — *Seal Beach*

David Shawver — *Stanton*

John Nielsen — *Tustin*

Brad Reese — *Villa Park*

John Anderson — *Yorba Linda*

James M. Ferryman — *Costa Mesa Sanitary District*

John Withers — *Irvine Ranch Water District*

Joy L. Neugebauer — *Midway City Sanitary District*

Janet Nguyen — *Member of the Orange County  
Board of Supervisors*

## Executive Management of the District

James D. Ruth, *General Manager*

Robert P. Ghirelli, D.Env., *Assistant General Manager*

James Herberg, *Assistant General Manager and Director of Engineering*

Lorenzo Tyner, *Director of Finance and Administrative Services*

Ed Torres, *Director of Operations and Maintenance*

Nick Arhontes, *Director of Facilities Support Services*

## Special Services

### **Special Counsel and Disclosure Counsel**

Fulbright & Jaworski L.L.P.

Los Angeles, California

### **District General Counsel**

Bradley R. Hogin

Woodruff, Spradlin & Smart, a Professional Corporation

Costa Mesa, California

### **Financial Advisor**

Public Resources Advisory Group

Los Angeles, California

### **Trustee**

Union Bank, N.A.

Los Angeles, California

### **Verification Agent**

Causey Demgen & Moore Inc.

Denver, Colorado

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 Revenue Obligations by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. The information set forth herein has been provided by the Orange County Sanitation District (the "District") and other sources that are believed by the District to be reliable. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the District, the Corporation or the Initial Purchaser in connection with any reoffering.

This Official Statement is not to be construed as a contract with the purchasers of the Revenue Obligations. Statements contained in this Official Statement which involve estimates, projections, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the Corporation since the date hereof. This Official Statement is submitted with respect to the sale of the Revenue Obligations referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the District. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions. Preparation of this Official Statement and its distribution have been duly authorized and approved by the District and the Corporation.

In connection with the offering of the Revenue Obligations, the Initial Purchaser in connection with any reoffering may over-allot or effect transactions which stabilize or maintain the market price of the Revenue Obligations at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Initial Purchaser in connection with any reoffering may offer and sell the Revenue Obligations to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the inside cover page hereof and such public offering prices may be changed from time to time by the Initial Purchaser.

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

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## OFFICIAL STATEMENT

**\$147,595,000**

### **ORANGE COUNTY SANITATION DISTRICT WASTEWATER REFUNDING REVENUE OBLIGATIONS SERIES 2011A**

#### INTRODUCTION

*This introduction contains only a brief summary of certain of the terms of the Revenue Obligations being offered and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California (the "State") and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Trust Agreement, the Installment Purchase Agreement and the Master Agreement (each, as hereinafter defined). See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Definitions" herein.*

#### **General**

This Official Statement, including the cover page and all appendices hereto, provides certain information concerning the sale and delivery of \$147,595,000 aggregate principal amount of the Orange County Sanitation District Wastewater Refunding Revenue Obligations, Series 2011A (the "Revenue Obligations"), which are **certificates of participation evidencing direct, fractional undivided interests in certain installment payments** (the "Installment Payments") and the interest thereon, to be made by the Orange County Sanitation District (the "District") pursuant to the Installment Purchase Agreement, dated as of October 1, 2011 (the "Installment Purchase Agreement"), by and between the District and the Orange County Sanitation District Financing Corporation (the "Corporation"). Unless the context clearly indicates to the contrary, a reference herein to either of the Installment Purchase Agreement or the Revenue Obligations is intended to refer to the corresponding interest in the Installment Purchase Agreement. Pursuant to the Master Agreement for District Obligations, dated as of August 1, 2000 (the "Master Agreement"), by and between the District and the Corporation, the District has established and declared the conditions and terms upon which obligations such as the Installment Purchase Agreement, and the Installment Payments and the interest thereon, will be incurred and secured. Installment Payments under the Installment Purchase Agreement are payable solely from Net Revenues (as defined hereinafter) as provided in the Installment Purchase Agreement, consisting primarily of all income and revenue received by the District from the operation or ownership of the Wastewater System of the District (the "Wastewater System") remaining after payment of Maintenance and Operation Costs, as further described in "SECURITY AND SOURCES OF PAYMENT FOR THE REVENUE OBLIGATIONS" herein.

The Revenue Obligations are to be executed and delivered pursuant to a Trust Agreement, dated as of October 1, 2011 (the "Trust Agreement"), by and among the District, the Corporation and Union Bank, N.A., as trustee (the "Trustee"). Proceeds from the sale of the Revenue Obligations will be used to (i) prepay \$89,800,000 in aggregate principal amount of the District's Refunding Certificates of Participation, Series 2000-A and Series 2000-B (the "2000 Refunded Certificates"), currently outstanding in the aggregate principal amount of \$181,700,000, and \$83,320,000 in aggregate principal amount of the District's Certificates of Participation, Series 2003, currently outstanding in the aggregate principal

amount of \$191,500,000 (the “2003 Refunded Certificates” and, together with the 2000 Refunded Certificates, the “Refunded Certificates”) and (ii) pay the costs incurred in connection with the execution and delivery of the Revenue Obligations. See “REFUNDING PLAN” herein.

The Revenue Obligations will be executed and delivered in the form of fully registered certificates of participation, dated as of the date of initial delivery thereof and will mature on February 1 or August 1, as applicable, in each such year as set forth on the inside cover page hereof. Interest evidenced by the Revenue Obligations will be payable semiannually on February 1 and August 1 of each year, commencing on February 1, 2012. See “THE REVENUE OBLIGATIONS” herein. The Revenue Obligations initially will be delivered only in book-entry form and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Revenue Obligations. The Revenue Obligations will be delivered in denominations of \$5,000 and any integral multiple thereof. So long as the Revenue Obligations are in the DTC book-entry system, the interest, principal, purchase price and prepayment premiums, if any, due with respect to the Revenue Obligations will be payable by the Trustee, or its agent, to DTC or its nominee. DTC, in turn, will make payments pursuant to its procedures as described under APPENDIX E – “BOOK-ENTRY SYSTEM” herein.

### **The District**

The District is a public agency responsible for regional wastewater collection, treatment and disposal. The District is the sixth largest wastewater discharger in the United States. The District provides service to an area with a population of more than 2.5 million people in the northern and central portion of the County of Orange (the “County”), in a service area of approximately 463 square miles, treating an average of 207 million gallons per day (“mg/d”) of wastewater in Fiscal Year 2010-11. See “THE DISTRICT,” “DISTRICT REVENUES” and “FINANCIAL OBLIGATIONS” herein.

### **Security and Sources of Payment for the Revenue Obligations**

The Revenue Obligations, which are certificates of participation, evidence direct, fractional undivided interests in the Installment Payments, and the interest thereon, paid by the District pursuant to the Installment Purchase Agreement. The obligation of the District to pay the Installment Payments and the interest thereon and other payments required to be made by it under the Installment Purchase Agreement is a special obligation of the District payable, in the manner provided under the Installment Purchase Agreement, solely from Net Revenues, and other funds as provided in the Installment Purchase Agreement. Net Revenues generally consist of all income and revenue received by the District from the operation or ownership of the Wastewater System remaining after payment of Maintenance and Operation Costs, all as further provided in the Master Agreement. The Installment Purchase Agreement constitutes a Senior Obligation and, as such, is subject to the provisions of the Master Agreement and is afforded all of the advantages, benefits, interests and security afforded Senior Obligations pursuant to the Master Agreement.

The District currently has Outstanding Senior Obligations payable from Net Revenues on a parity with the Installment Payments under the Installment Purchase Agreement. See “ESTIMATED SOURCES AND USES OF FUNDS,” “FINANCIAL OBLIGATIONS – Existing Indebtedness” and “THE DISTRICT” herein and APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Master Agreement” attached hereto. The District has no Subordinate Obligations currently outstanding.

Pursuant to the Master Agreement, the District will, to the extent permitted by law, fix, prescribe and collect fees and charges for the services and facilities of the Wastewater System which will be at least sufficient to yield during each Fiscal Year (a) Net Revenues equal to 125% of Debt Service on Senior Obligations for such Fiscal Year and (b) Net Operating Revenues equal to 100% of Debt Service on all Obligations for such Fiscal Year. The District may make adjustments from time to time in such fees and

charges and may make such classification thereof as it deems necessary, but shall not reduce the fees and charges then in effect unless the Revenues and Net Revenues from such reduced fees and charges will at all times be sufficient to meet the requirements of the Master Agreement. See “SECURITY AND SOURCE OF PAYMENT FOR THE REVENUE OBLIGATIONS – Rate Covenant” herein.

**The obligation of the District to pay the Installment Payments and the interest thereon, and other payments required to be made by it under the Installment Purchase Agreement is a special obligation of the District payable, in the manner provided in the Installment Purchase Agreement, solely from Net Revenues and other funds provided for in the Installment Purchase Agreement, and does not constitute a debt of the District or of the State, or of any political subdivision thereof, in contravention of any constitutional or statutory debt limitation or restriction. Neither the faith and credit nor the taxing power of the District or the State or any political subdivision thereof, is pledged to the payment of the Installment Payments, or the interest thereon, or other payments required to be made under the Installment Purchase Agreement. The Installment Purchase Agreement constitutes a Senior Obligation and, as such, is subject to the provisions of the Master Agreement and is afforded all of the advantages, benefits, interests and security afforded Senior Obligations pursuant to the Master Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE REVENUE OBLIGATIONS” herein.**

#### **Continuing Disclosure**

The District has covenanted for the benefit of holders and beneficial owners of the Revenue Obligations (a) to provide certain financial information and operating data (the “Annual Report”) relating to the District and the property in the District not later than eight months after the end of the District’s Fiscal Year (which currently would be March 1), commencing with the report for the 2010-11 Fiscal Year, and (b) to provide notices of the occurrence of certain enumerated events. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is set forth in the Continuing Disclosure Agreement. See “CONTINUING DISCLOSURE” herein and APPENDIX D – “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

#### **Miscellaneous**

The descriptions herein of the Trust Agreement, the Master Agreement, the Installment Purchase Agreement, the Continuing Disclosure Agreement and any other agreements relating to the Revenue Obligations are qualified in their entirety by reference to such documents. Copies of the Trust Agreement, the Master Agreement and the Installment Purchase Agreement are on file and available for inspection at the corporate trust office of Union Bank, N.A., Los Angeles, California Attention: Corporate Trust.

## **REFUNDING PLAN**

A portion of the net proceeds of from the sale of the Revenue Obligations, together with other available moneys, will be used to prepay a portion of the installment payments (the “Refunded Installment Payments”) to be made by the District pursuant to the 2000 Installment Purchase Agreement, which was executed and delivered in connection with the 2000 Refunded Certificates, and the 2003 Installment Purchase Agreement, which was executed and delivered in connection with the 2003 Refunded Certificates.

Pursuant to the terms of the Trust Agreement, dated as of August 1, 2000 (the “2000 Trust Agreement”), by and among the District, the Corporation and U.S. Bank National Association, as successor trustee thereunder (the “2000 Trustee”), the prepayment of \$89,800,000 in aggregate principal amount of the 2000 Refunded Certificates (consisting of \$42,400,000 in aggregate principal amount of the Series 2000-A Certificates and \$47,400,000 in aggregate principal amount of the Series 2000-B Certificates) will be effected by depositing a portion of the proceeds of the Revenue Obligations, together with other available moneys, with the 2000 Trustee. Such amount will be held by the 2000 Trustee in cash in an amount sufficient to provide for the payment of the interest component of the applicable Refunded Installment Payments through and including October 3, 2011 (the “2000 Prepayment Date”) and to provide for the prepayment of the principal component of the applicable Refunded Installment Payments on the 2000 Prepayment Date at a prepayment price equal to the principal amount thereof (the “2000 Prepayment Price”), without premium.

Pursuant to the terms of the Trust Agreement, dated as of July 1, 2003 (the “2003 Trust Agreement”), by and among the District, the Corporation and Union Bank, N.A., as trustee thereunder, the prepayment of \$83,320,000 in aggregate principal amount of the 2003 Refunded Certificates, which are stated to mature on February 1, 2022 through 2026, inclusive, will be effected by depositing a portion of the proceeds of the Revenue Obligations, together with other available moneys, in an escrow fund (the “2003 Escrow Fund”) to be created and established under the 2003 Escrow Agreement, dated as of October 1, 2011, by and between the District and Union Bank, N.A., as escrow agent thereunder. Such proceeds, together with other moneys deposited by the District in the 2003 Escrow Fund, will be invested in Government Obligations (as defined in the 2003 Trust Agreement). The Government Obligations will be scheduled to mature in such amounts and at such times and pay interest at such rates as to provide amounts sufficient to pay principal and interest with respect to the applicable Refunded Installment Payments due and payable through August 1, 2013 and to pay on August 1, 2013 (the “2003 Prepayment Date” and, together with the 2000 Prepayment Date, the “Prepayment Dates”) the principal component of the Refunded Installment Payments with respect to the 2003 Refunded Certificates at a prepayment price equal to the principal amount thereof (the “2003 Prepayment Price”), without premium. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS” herein.

The amounts deposited in the 2003 Escrow Fund will be held in trust solely for the 2003 Refunded Certificates and will not be available to pay the principal and interest evidenced by the Revenue Obligations or any obligations other than the 2003 Refunded Certificates.

## ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds and other amounts in connection with the delivery of the Revenue Obligations are presented below.

### Sources

Par Amount of Revenue Obligations	\$147,595,000
Premium	20,390,657
Amounts released from Trust Agreements relating to the Refunded Certificates	<u>13,646,016</u>
Total Sources	\$181,631,673

### Uses

Transfer to 2000 Trustee to prepay 2000 Refunded Certificates	\$89,800,000
Deposit to 2003 Escrow Fund	91,180,644
Initial Purchaser's Discount	330,300
Costs of Issuance <sup>(1)</sup>	<u>320,730</u>
Total Uses <sup>(2)</sup>	\$181,631,673

<sup>(1)</sup> Costs of Issuance include, among other things, fees of rating agencies, Special Counsel fees and expenses, verification fees and the initial fees of the Trustee.

<sup>(2)</sup> Totals may not add due to rounding.

## THE REVENUE OBLIGATIONS

### General

The Revenue Obligations will be prepared in the form of fully registered certificates of participation in denominations of \$5,000 and any integral multiple thereof. The Revenue Obligations will be dated as of the date of initial delivery thereof and will mature on February 1 or August 1, as applicable, in such years as set forth on the inside cover page hereof. Interest evidenced by the Revenue Obligations will be payable semiannually on February 1 and August 1 of each year, commencing on February 1, 2012. The Revenue Obligations initially will be delivered only in book-entry form and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Revenue Obligations. Individual purchases of the Revenue Obligations will be made in book-entry form only. Purchasers of Revenue Obligations will not receive physical certificates representing their ownership interests in the Revenue Obligations purchased.

The interest evidenced by the Revenue Obligations shall be payable on each Interest Payment Date to and including their respective Principal Payment Dates or prepayment prior thereto, and shall represent the sum of the interest on the Installment Payments coming due on the Interest Payment Dates in each year. The principal evidenced by the Revenue Obligations shall be payable on their respective Principal Payment Dates in each year and shall represent the Installment Payments coming due on the Principal Payment Dates in each year. Each Revenue Obligation shall evidence interest from the Interest Payment Date next preceding its date of execution to which interest has been paid in full, unless such date of execution shall be after a Record Date and on or prior to the following Interest Payment Date, in which case such Revenue Obligation shall evidence interest from such Interest Payment Date, or unless such date of execution shall be on or prior to January 15, 2012, in which case such Revenue Obligation shall represent interest from its date of initial delivery. Notwithstanding, the foregoing, if, as shown by the records of the Trustee, interest evidenced by the Revenue Obligations shall be in default, each Revenue Obligation shall evidence interest from the last Interest Payment Date to which such interest has been paid



in full or duly provided for. Interest evidenced by the Revenue Obligations shall be computed on the basis of a 360-day year consisting of twelve 30-day months. See APPENDIX C — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Trust Agreement.”

Payments of principal and interest evidenced by the Revenue Obligations are payable directly to DTC by Union Bank, N.A., as trustee. Upon receipt of payments of such principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Revenue Obligations. So long as the Revenue Obligations are held in the DTC book-entry system, the interest, principal, purchase price and prepayment premiums, if any, due with respect to the Revenue Obligations will be payable by the Trustee, or its agent, to DTC or its nominee. DTC, in turn, will make payments pursuant to its procedures as described under APPENDIX E – “BOOK-ENTRY SYSTEM” herein.

### **Prepayment Provisions**

***Optional Prepayment.*** The Revenue Obligations with stated Principal Payment Dates prior to February 1, 2023 are not subject to optional prepayment prior to their stated Principal Payment Dates. The Revenue Obligations with stated Principal Payment Dates on or after February 1, 2023 are subject to optional prepayment prior to their stated Principal Payment Dates, on any date on or after August 1, 2021, in whole or in part, in Authorized Denominations, from and to the extent of prepaid Installment Payments paid pursuant to the Installment Purchase Agreement or from any other source of available funds, any such prepayment to be at a price equal to the principal evidenced by the Revenue Obligations to be prepaid, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium.

***Selection of Revenue Obligations for Prepayment.*** Whenever less than all the Outstanding Revenue Obligations are to be prepaid on any one date pursuant to provisions of the Trust Agreement with respect to optional prepayment of Revenue Obligations, the Trustee shall select the Revenue Obligations to be prepaid among Revenue Obligations with different Principal Payment Dates as directed in a Written Request of the District. Whenever less than all the Outstanding Revenue Obligations with the same stated Principal Payment Date are to be prepaid on any one date in accordance with the Trust Agreement, the Trustee shall select the Revenue Obligations with such Principal Payment Date to be prepaid as directed in a Written Request of the District, or at the discretion of the District by lot in any manner that the Trustee deems fair and appropriate, which decision shall be final and binding upon the District and the Owners. The Trustee shall promptly notify the District in writing of the numbers of the Revenue Obligations so selected for prepayment on such date. For purposes of such selection, any Revenue Obligation may be prepaid in part in Authorized Denominations.

***Notice of Prepayment.*** When prepayment of Revenue Obligations is authorized pursuant to the Trust Agreement, the Trustee shall give notice, at the expense of the District, of the prepayment of the Revenue Obligations. The notice of prepayment shall specify (a) the Revenue Obligations or designated portions thereof (in the case of prepayment of the Revenue Obligations in part but not in whole) which are to be prepaid, (b) the date of prepayment, (c) the place or places where the prepayment will be made, including the name and address of any paying agent, (d) the prepayment price, (e) the CUSIP numbers assigned to the Revenue Obligations to be prepaid, (f) the numbers of the Revenue Obligations to be prepaid in whole or in part and, in the case of any Revenue Obligation to be prepaid in part only, the principal evidenced by such Revenue Obligation to be prepaid, and (g) the interest rate and stated Principal Payment Date of each Revenue Obligation to be prepaid in whole or in part. Such notice of prepayment shall further state that on the specified date there shall become due and payable upon each Revenue Obligation or portion thereof being prepaid the prepayment price and that from and after such date interest evidenced thereby shall cease to accrue and be payable. With respect to any notice of optional prepayment of Revenue Obligations, unless at the time such notice is given the Revenue Obligations to be prepaid shall be deemed to have been paid within the meaning of the Trust Agreement, such notice shall state that such prepayment is conditional upon receipt by the Trustee, on or prior to the date fixed for such prepayment, of moneys sufficient to pay for the prepayment price of the Revenue

Obligations to be prepaid, and that if such moneys shall not have been so received said notice shall be of no force and effect and the District shall not be required to prepay such Revenue Obligations. In the event a notice of prepayment of Revenue Obligations contains such a condition and such moneys are not so received, the prepayment of Revenue Obligations as described in the conditional notice of prepayment shall not be made and the Trustee shall, within a reasonable time after the date on which such prepayment was to occur, give notice to the persons and in the manner in which the notice of prepayment was given, that such moneys were not so received and that there shall be no prepayment of Revenue Obligations pursuant to such notice of prepayment.

The Trustee shall, at least 20 but not more than 60 days prior to any prepayment date, give notice of prepayment to the respective Owners of Revenue Obligations designated for prepayment by first-class mail, postage prepaid, at their addresses appearing on the registration books maintained by the Trustee as of the close of business on the day before such notice of prepayment is given.

The actual receipt by the Owner of any notice of such prepayment shall not be a condition precedent to prepayment, and neither failure to receive such notice nor any defect therein shall affect the validity of the proceedings for the prepayment of such Revenue Obligations or the cessation of interest evidenced thereby on the date fixed for prepayment.

***Effect of Prepayment.*** If notice of prepayment has been duly given as aforesaid and moneys for the payment of the prepayment price of the Revenue Obligations to be prepaid are held by the Trustee, then on the prepayment date designated in such notice, the Revenue Obligations so called for prepayment shall become payable at the prepayment price specified in such notice; and from and after the date so designated, interest evidenced by the Revenue Obligations so called for prepayment shall cease to accrue, such Revenue Obligations shall cease to be entitled to any benefit or security hereunder and the Owners of such Revenue Obligations shall have no rights in respect thereof except to receive payment of the prepayment price thereof. The Trustee shall, upon surrender for payment of any of the Revenue Obligations to be prepaid, pay such Revenue Obligations at the prepayment price thereof, and such moneys shall be pledged to such payment.

## **SECURITY AND SOURCES OF PAYMENT FOR THE REVENUE OBLIGATIONS**

### **Installment Payments**

Pursuant to the Installment Purchase Agreement, the Project will be reacquired by the District from the Corporation. The District has covenanted to, subject to any rights of prepayment under the Installment Purchase Agreement, pay to the Corporation, solely from Net Revenues and from no other sources, the Purchase Price in Installment Payments, with interest thereon, as provided in the Installment Purchase Agreement. Pursuant to the Master Agreement, the District has established and declared the conditions and terms upon which obligations such as the Installment Purchase Agreement, and the Installment Payments and the interest thereon payable under the Installment Purchase Agreement, will be incurred and secured. The obligation of the District to make the Installment Payments, and payments of interest thereon, and other payments required to be made by it under the Installment Purchase Agreement, solely from Net Revenues, is absolute and unconditional, and until such time as the Installment Payments, payments of interest thereon, and such other payments shall have been paid in full (or provision for the payment thereof shall have been made pursuant to the Installment Purchase Agreement), the District has covenanted that it will not discontinue or suspend any Installment Payments when due, whether or not the Project 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 Installment Payments, payments of interest thereon, and other payments shall not be subject to reduction whether offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement or any cause whatsoever. The District's obligation to make Installment Payments from Net Revenues is on a parity with the District's obligation to make payments with respect to its Outstanding

Senior Obligations. See “Net Revenues” below. Pursuant to the Trust Agreement, the Corporation has assigned to the Trustee for the benefit of the Owners of the Revenue Obligations substantially all of its rights, title and interest in and to the Installment Purchase Agreement, including its right to receive Installment Payments and the interest thereon.

The District has certain Existing Senior Obligations Outstanding payable from Net Revenues on a parity with the Installment Payments under the Installment Purchase Agreement. The term “Existing Senior Obligations” as used in this Official Statement refers to the 2000 Installment Purchase Agreement, the 2003 Installment Purchase Agreement, the 2007A Installment Purchase Agreement, the 2007B Installment Purchase Agreement, the 2008A Installment Purchase Agreement, the 2008B Installment Purchase Agreement, the 2009A Installment Purchase Agreement, the 2010A Installment Purchase Agreement, the 2010B Installment Purchase Agreement and the 2010C Installment Purchase Agreement and the term “Senior Obligations” as used in this Official Statement refers to the Existing Senior Obligations and to any additional Senior Obligations, such as the Installment Purchase Agreement, that may be made payable on a parity basis to the Installment Payments as provided in the Master Agreement. Senior Obligations, together with any Subordinate Obligations payable on a subordinate basis to the Installment Payments incurred as provided in the Master Agreement, are referred to collectively as the “Obligations.” The District has no Subordinate Obligations currently outstanding. See “FINANCIAL OBLIGATIONS — Existing Indebtedness” herein and APPENDIX C — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Master Agreement” attached hereto.

The obligation of the District to pay the Installment Payments, and the interest thereon, and other payments required to be made by it under the Installment Purchase Agreement and Master Agreement, is a special obligation of the District payable, in the manner provided in the Installment Purchase Agreement, solely from Net Revenues and other funds provided for in the Installment Purchase Agreement, and does not constitute a debt of the District, the State or any political subdivision thereof, in contravention of any constitutional or statutory debt limitation or restriction. Neither the faith and credit nor the taxing power of the District, the State or any political subdivision thereof, is pledged to the payment of the Installment Payments, or the interest thereon, or other payments required to be made under the Installment Purchase Agreement. The Installment Purchase Agreement constitutes a Senior Obligation and, as such, is subject to the provisions of the Master Agreement and is afforded all of the advantages, benefits, interests and security afforded Senior Obligations pursuant to the Master Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE REVENUE OBLIGATIONS” herein.

### **Available Funds of the District**

As Senior Obligations under the Master Agreement, the Installment Payments are payable from and secured by a pledge of Net Revenues. Should Net Revenues prove insufficient, the Installment Purchase Agreement further provides that the Installment Payments are payable from any other lawfully available funds of the District. The primary lawfully available funds of the District are its reserve funds, other than trustee-held amounts required to be in any Obligation Reserve Fund securing certain of the District’s Senior Obligations, as described in the Master Agreement. At June 30, 2011, the District’s Debt Service Required Reserves totaled \$147 million, of which \$90.2 million were trustee-held amounts in Obligation Reserve Funds as required under the Master Agreement. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Master Agreement” attached hereto. District reserve funds are maintained in accordance with the District’s reserve policy. See “DISTRICT REVENUES - Reserves.” District reserve funds, excluding Debt Service Required Reserves (see Table 13), are referred to herein as “Available Reserves.” Available Reserves at June 30, 2011 were approximately \$414 million. Available Reserves at June 30, 2012 and June 30, 2013 are projected to be approximately \$573 million and \$643 million, respectively. See “DISTRICT REVENUES — Reserves,” “— Summary of Operating Data” and “— Projected Operating Data.”

## Net Revenues

The District is obligated to make Installment Payments solely from Net Revenues as provided in the Master Agreement, which consist of Revenues remaining after payment of costs paid by the District for maintaining and operating the Wastewater System (“Maintenance and Operation Costs”). Revenues are defined in the Master Agreement to mean, for any period, all income and revenue received by the District during such period from the operation or ownership of the Wastewater System, determined in accordance with generally accepted accounting principles, including all fees and charges received during such period for the services of the Wastewater System, investment income received during such period (but only to the extent that such investment income is generally available to pay costs with respect to the Wastewater System, including Maintenance and Operation Costs), Net Proceeds of business interruption insurance received during such period, *ad valorem* taxes received during such period, payments under the Agreement Acquiring Ownership Interests, Assigning Rights and Establishing Obligations, entered into on February 13, 1986, and amendment No. 1 thereto dated December 10, 1986 (the “IRWD Agreement”), by and between predecessor County Sanitation District No. 14 of Orange County and the Irvine Ranch Water District (the “IRWD”) received during such period and all other money received during such period howsoever derived by the District from the operation or ownership of the Wastewater System or arising from the Wastewater System (including any standby or availability charges), but excluding (a) Capital Facilities Capacity Charges, (b) payments received under Financial Contracts, and (c) refundable deposits made to establish credit and advances or contributions in aid of construction (which, for purposes of the Master Agreement, shall not include payments under the IRWD Agreement); provided, however, that (i) Revenues shall be increased by the amounts, if any, transferred during such period from the Rate Stabilization Account to the Revenue Account and shall be decreased by the amounts, if any, transferred during such period from the Revenue Account to the Rate Stabilization Account, and (ii) Revenues shall include Capital Facilities Capacity Charges collected during such period to the extent that such Capital Facilities Capacity Charges could be properly expended on a Capital Facilities Capacity Charge Eligible Project for which the proceeds of Subject Obligations were used or are available to be used. Any Federal Subsidy payments received by the District will constitute Revenues as defined in the Master Agreement. See “DISTRICT REVENUES — Additional Revenues” herein.

The District’s obligation to make the Installment Payments from its Net Revenues is on a parity with the District’s obligation to make payments with respect to its other outstanding obligations described as Senior Obligations and all Reimbursement Obligations with respect to Senior Obligations, as provided in the Master Agreement. The Installment Purchase Agreement constitutes a Senior Obligation and, as such, is subject to the provisions of the Master Agreement and is afforded all of the advantages, benefits, interests and security afforded Senior Obligations pursuant to the Master Agreement. Pursuant to the Master Agreement, the District pledges all Net Revenues to the payment of the Senior Obligations and Reimbursement Obligations with respect to Senior Obligations, and the Net Revenues will not be used for any other purpose while any of the Senior Obligations or Reimbursement Obligations with respect to Senior Obligations remain unpaid; provided, however, that out of the Net Revenues there may be apportioned such sums for such purposes as are expressly permitted by the Master Agreement. This pledge constitutes a first lien on the Net Revenues for the payment of the Senior Obligations and Reimbursement Obligations with respect to Senior Obligations. The term “Senior Obligations” generally means all revenue bonds or notes (including bond anticipation notes and commercial paper) of the District authorized, issued, executed and delivered under and pursuant to applicable law, the Installment Purchase Agreement, and all other contracts (including financial contracts) or leases of the District authorized and executed by the District under and pursuant to applicable law, including, without limitation, installment, lease or other payments which are, in accordance with the provisions of the Master Agreement, payable from Net Revenues on a parity with the payments under the Master Agreement.

The District may at any time incur Subordinate Obligations payable on a subordinate basis to the Installment Payments as provided in the Master Agreement; provided, however, that prior to incurring such Subordinate Obligations, the District shall have determined that the incurrence thereof will not

materially adversely affect the District's ability to comply with the requirements of the Master Agreement. The District may at any time incur Reimbursement Obligations with respect to Subordinate Obligations. For a description of the District's Outstanding Senior Obligations and Subordinate Obligations, see "FINANCIAL OBLIGATIONS — Existing Indebtedness" herein. There are currently no Subordinate Obligations or Reimbursement Obligations with respect to Subordinate Obligations outstanding.

The District may, in connection with the incurrence of Subordinate Obligations, pledge Net Revenues to the payment of Subordinate Obligations and Reimbursement Obligations with respect to Subordinate Obligations; provided, however, that such pledge, and any lien created thereby, shall be junior and subordinate to the pledge of, and lien on, Net Revenues for the payment of Senior Obligations and Reimbursement Obligations with respect to Senior Obligations.

### **Rate Stabilization Account**

To avoid fluctuations in its fees and charges of the Wastewater System, from time to time the District may deposit in the Rate Stabilization Account from Net Revenues such amounts as the District deems necessary or appropriate. From time to time, the District may also transfer moneys from the Rate Stabilization Account to the Revenue Account to be used by the District, first to pay all Maintenance and Operations Costs as and when the same shall be due and payable. In addition, any such amount transferred from the Rate Stabilization Account to the Revenue Account by the District is included as Revenues for any period, but such transferred amount is excluded from determining Operating Revenues for any period. Revenues will be decreased by the amounts, if any, transferred from the Revenue Account to the Rate Stabilization Account. There are presently no funds in the Rate Stabilization Account.

### **Allocation of Revenues**

To carry out and effectuate the pledge of Net Revenues under the Master Agreement as described above, the District agrees and covenants that all Operating Revenues received by the District will be deposited when and as received in the Revenue Account. Additionally, amounts may, from time to time as the District deems necessary or appropriate, be transferred from the Rate Stabilization Account and deposited in the Revenue Account, as described above under "— Rate Stabilization Account" above. The District will pay from the Revenue Account all Maintenance and Operations Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operations Costs, the payment of which is not immediately required) as and when the same shall be due and payable.

After having paid, or having made provisions for the payment of, Maintenance and Operations Costs, the District shall set aside and deposit or transfer, as the case may be, from the Revenue Account such amounts at such times as provided in the Master Agreement in the following order of priority:

- (1) Senior Obligation Payment Account;
- (2) Senior Obligation Reserve Funds (the Revenue Obligations are not secured by any Reserve Fund);
- (3) Subordinate Obligation Payment Account;
- (4) Subordinate Obligation Reserve Funds; and
- (5) Rate Stabilization Account.

Amounts required or permitted to be deposited or transferred as described in items 2, 3, 4 and 5 above, shall not be so deposited or transferred unless the District shall have determined that there will be

sufficient Net Revenues available to make the required deposits or transfers on the dates on which such deposits or transfers are required to be made as described above. So long as the District has determined that Net Revenues will be sufficient to make all of the deposits or transfers required to be made pursuant to items 1, 2, 3, 4 and 5 above, on the dates on which such deposits or transfers are required to be made, Net Revenues on deposit in the Revenue Account may from time to time be used for any purpose for which the District funds may be legally applied. For additional information, see APPENDIX C — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Master Agreement.”

### **Rate Covenant**

Pursuant to the Master Agreement, the District will, to the extent permitted by law, fix, prescribe and collect fees and charges for the services of the Wastewater System which will be at least sufficient to yield during each Fiscal Year (a) Net Revenues equal to 125% of Debt Service on Senior Obligations for such Fiscal Year and (b) Net Operating Revenues equal to 100% of Debt Service on all Obligations for such Fiscal Year. The District may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but will not reduce the fees and charges then in effect unless the Revenues and Net Revenues from such reduced fees and charges will at all times be sufficient to meet the requirements of the Master Agreement.

In addition, the District has covenanted in the Master Agreement to prepare and adopt an annual budget for the Wastewater System for each Fiscal Year. Such budget will set forth in reasonable detail the Revenues anticipated to be derived in such Fiscal Year and the expenditures anticipated to be paid or provided for therefrom in such Fiscal Year, including, without limitation, the amounts required to pay or provide for the payment of the Obligations during such Fiscal Year, the amounts required to pay or provide for the payment of Maintenance and Operations Costs during such Fiscal Year and the amounts required to pay or provide for the payment of all other claims or obligations required to be paid from Revenues in such Fiscal Year, and will show that Revenues and Net Revenues will be at least sufficient to satisfy the requirements of the Master Agreement. On or before September 1 of each Fiscal Year, the District will file with the Trustee a copy of the adopted budget for such Fiscal Year. See APPENDIX C — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Master Agreement” for additional information.

The District has an established reserve policy with eight separate reserve fund categories. Over the next ten years, the year ending reserve total for each year is projected not to fall below \$482 million as indicated in the District’s ten-year cash flow forecast for fiscal years 2011-12 through 2020-21. At its election, the District may use unrestricted reserves to help satisfy the rate covenant described above. See “DISTRICT REVENUES — Reserves” herein.

### **Limitations on Issuance of Additional Obligations**

**Senior Obligations.** The District may at any time incur Senior Obligations in addition to the Existing Senior Obligations payable from Net Revenues as provided in the Master Agreement on a parity with all other Senior Obligations theretofore incurred but only subject to the following conditions under the Master Agreement:

- (1) Upon the incurrence of such Senior Obligations, no Event of Default will be continuing under the Master Agreement; and
- (2) Subject to the provisions of the Master Agreement, the District will have received either one of the following:
  - (i) A Written Certificate of the District certifying that, for a 12 consecutive calendar month period during the 24 consecutive calendar month period ending in the

calendar month prior to the incurrence of such Senior Obligations (which 12 consecutive calendar month period will be specified in such certificate or certificates):

- (A) Net Revenues, as shown by the books of the District, will have amounted to at least 125% of Maximum Annual Debt Service on all Senior Obligations to be outstanding immediately after the incurrence of such Senior Obligations, and
- (B) Net Operating Revenues, as shown by the books of the District, will have amounted to at least 100% of Maximum Annual Debt Service on all Obligations to be outstanding immediately after the incurrence of such Senior Obligations.

For purposes of demonstrating compliance with the foregoing, Net Revenues and Net Operating Revenues may be adjusted for (x) any changes in fees and charges for the services of the Wastewater System which have been adopted and are in effect on the date such Senior Obligations are incurred, but which, during all or any part of such 12 consecutive calendar month period, were not in effect, (y) customers added to the Wastewater System subsequent to such 12 consecutive calendar month period but prior to the date such Senior Obligations are incurred, and (z) the estimated change in available Net Revenues and Net Operating Revenues which will result from the connection of existing residences or businesses to the Wastewater System within one year following completion of any project to be funded or any system to be acquired from the proceeds of such Senior Obligations; or

- (ii) A certificate or certificates from one or more Consultants which, when taken together, project that, for each of the two Fiscal Years next succeeding the incurrence of such Senior Obligations:
  - (A) Net Revenues will amount to at least 125% of Maximum Annual Debt Service on all Senior Obligations to be outstanding immediately after the incurrence of such Senior Obligations, and
  - (B) Net Operating Revenues will amount to at least 100% of Maximum Annual Debt Service on all Obligations to be outstanding immediately after the incurrence of such Senior Obligations.

For purposes of demonstrating compliance with the foregoing, Net Revenues and Net Operating Revenues may be adjusted for (x) any changes in fees and charges for the services of the Wastewater System which have been adopted and are in effect on the date such Senior Obligations are incurred or will go into effect prior to the end of such two Fiscal Year period, (y) customers expected to be added to the Wastewater System prior to the end of such two Fiscal Year period, and (z) the estimated change in available Net Revenues and Net Operating Revenues which will result from the connection of existing residences or businesses to the Wastewater System within one year following completion of any project to be funded or any system to be acquired from the proceeds of such Senior Obligations. For purposes of preparing the certificate or certificates described above, the Consultant may rely upon financial statements prepared by the District that have not been subject to audit by an independent certified public accountant if audited financial statements for the period are not available.



See, also “FINANCIAL OBLIGATIONS – Existing Indebtedness” herein. The District is not required to comply with the provisions described above in paragraph (2) if the Senior Obligations being incurred are Short-Term Obligations excluded from the calculation of Assumed Debt Service pursuant to clause (H) of the definition thereof. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Definitions” herein.

The determination of Net Revenues for use in the calculation described above is more fully described in APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Master Agreement – *Senior Obligations*” attached hereto. The District is not required to comply with the provisions described in paragraph (2) above for such portion of Senior Obligations incurred for the purpose of providing funds to refund or refinance Senior Obligations if (i) upon such refunding or refinancing, debt service on such refunded or refinanced Obligations, or debt service on bonds, notes or other obligations of an entity other than the District, the debt service on which is payable from Obligation Payments for such Obligations (the “Related Bonds”), will no longer be included in the calculation of Assumed Debt Service either because such Obligations, or the Related Bonds of such Obligations, will have been paid in full or because such debt service is disregarded pursuant to clause (L) of the definition of Assumed Debt Service, and (ii) Assumed Debt Service in each Fiscal Year for the portion of such Senior Obligations incurred for the purpose of providing funds to refund or refinance such Obligations is less than or equal to 105% of Assumed Debt Service in such Fiscal Year for such Obligations being refunded or refinanced (assuming for such purposes that debt service on such refunded or refinanced Obligations, or debt service on the Related Bonds of such Obligations, is not disregarded pursuant to clause (L) of the definition of Assumed Debt Service). See APPENDIX C — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Master Agreement” attached hereto for additional information.

The District may at any time incur Reimbursement Obligations with respect to Senior Obligations.

***Subordinate Obligations.*** The District may at any time incur Subordinate Obligations upon satisfaction of the conditions provided in the Master Agreement. See APPENDIX C — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Master Agreement” herein for a description of such conditions.

## **Insurance**

The District will procure and maintain or cause to be procured and maintained casualty insurance on the Wastewater System with responsible insurers, or provide self insurance (which may be provided in the form of risk-sharing pools), in such amounts and against such risks (including accident to or destruction of the Wastewater System) as are usually covered in connection with facilities similar to the Wastewater System. The District will procure and maintain such other insurance which it will deem advisable or necessary to protect its interests and the interests of the Corporation. See “THE DISTRICT — Risk Management” and APPENDIX C — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Master Agreement” herein.

## Allocation of Installment Payments

Table 1 below sets forth the estimated Installment Payments with respect to the Revenue Obligations. Also set forth are the payments due on Existing Senior Obligations.

**Table 1**  
**Estimated Installment Payments Relating to the Revenue Obligations**  
**and Existing Senior Obligations of the District**

Fiscal Year Ending June 30	Installment Payments Relating to Revenue Obligations		Other Senior Obligations <sup>(1)</sup>		Total
	Principal	Interest	Principal	Interest <sup>(2)</sup>	
2012 <sup>(3)</sup>		\$ 2,138,438.61	\$ 9,120,000	\$ 29,490,032.32	\$ 40,748,470.93
2013	\$ 7,400,000	6,413,050.00	16,565,000	55,951,702.73	86,329,752.73
2014	9,850,000	6,154,300.00	29,740,000	55,189,367.24	100,933,667.24
2015	9,055,000	5,825,450.00	18,820,000	54,356,210.99	88,056,660.99
2016	9,825,000	5,398,725.00	19,580,000	53,622,846.78	88,426,571.78
2017	15,135,000	4,774,725.00	20,440,000	52,850,727.73	93,200,452.73
2018	20,960,000	3,872,350.00	12,210,000	52,238,468.50	89,280,818.50
2019	-	3,348,350.00	36,815,000	51,031,047.29	91,194,397.29
2020	-	3,348,350.00	38,455,000	49,659,030.83	91,462,380.83
2021	-	3,348,350.00	44,615,000	48,275,929.14	96,239,279.14
2022	13,795,000	3,348,350.00	24,470,000	47,149,774.67	88,763,124.67
2023	14,435,000	2,658,600.00	25,560,000	46,117,470.28	88,771,070.28
2024	15,055,000	2,081,200.00	26,585,000	45,047,841.00	88,769,041.00
2025	15,760,000	1,328,450.00	27,780,000	43,906,004.62	88,774,454.62
2026	16,325,000	816,250.00	28,900,000	42,737,643.75	88,778,893.75
2027	-	-	49,435,000	41,508,383.45	90,943,383.45
2028	-	-	51,595,000	39,361,177.07	90,956,177.07
2029	-	-	53,850,000	37,101,869.42	90,951,869.42
2030	-	-	57,020,000	34,760,785.18	91,780,785.18
2031	-	-	66,665,000	32,288,655.36	98,953,655.36
2032	-	-	78,825,000	29,184,503.55	108,009,503.55
2033	-	-	109,910,000	25,227,361.20	135,137,361.20
2034	-	-	56,635,000	19,711,082.04	76,346,082.04
2035	-	-	59,165,000	16,931,657.36	76,096,657.36
2036	-	-	61,825,000	14,025,336.71	75,850,336.71
2037	-	-	51,610,000	11,113,614.00	62,723,614.00
2038	-	-	34,290,000	8,325,855.00	42,615,855.00
2039	-	-	35,920,000	6,395,648.00	42,315,648.00
2040	-	-	24,575,000	4,375,150.00	28,950,150.00
2041	-	-	20,805,000	2,912,640.00	23,717,640.00
2042	-	-	12,430,000	1,581,120.00	14,011,120.00
2043	-	-	9,795,000	785,600.00	10,580,600.00
2044	-	-	2,480,000	158,720.00	2,638,720.00
<b>Total</b>	<u>\$147,595,000</u>	<u>54,854,938.61</u>	<u>\$1,216,485,000</u>	<u>\$1,053,373,256.21</u>	<u>\$2,472,308,194.82</u>

<sup>(1)</sup> Preliminary, subject to change. The District intends to refinance its \$154,665,000 Revenue Refunding Certificate Anticipation Notes, Series 2010B ("2010 Notes") on or before their maturity on November 23, 2011. Assumes principal is amortized from 2022 through 2036 and an interest rate of 3% per annum. See "FINANCIAL OBLIGATIONS – Recent and Anticipated Financings" herein. Excludes principal and interest of the Refunded Certificates.

<sup>(2)</sup> Assumes a per annum interest rate of 3% for all variable rate obligations. See "FINANCIAL OBLIGATIONS – Existing Indebtedness" and APPENDIX A – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE ORANGE COUNTY SANITATION DISTRICT FOR FISCAL YEAR ENDED JUNE 30, 2010" herein.

<sup>(3)</sup> Excludes payments due prior to October 3, 2011.

## THE DISTRICT

### Background

The Orange County Sanitation District is a public agency responsible for regional wastewater collection, treatment and disposal. The District is the sixth largest wastewater discharger in the United States. The District provides service to an area with a population of more than 2.5 million people in the northern and central portion of the County by treating an average of 207 mg/d of wastewater in Fiscal Year 2010-11. The District serves approximately 81% of the County population in approximately 463 square miles, or approximately 60% of the County's area.

The service area which comprises the District was originally formed in 1954 pursuant to the County Sanitation District Act, as amended, Section 4700 et seq. of the Health and Safety Code of the State. The District's service area originally consisted of seven independent special districts in the County which were each responsible for matters relating to their individual districts. These special districts were jointly responsible for the treatment and disposal facilities which they each used. The seven independent districts were successors to the Joint Outfall Sewer Organization, which was formed in 1923 among the Cities of Anaheim, Santa Ana, Fullerton, and Orange, and the sanitary districts of Placentia, Buena Park, La Habra, and Garden Grove. The Joint Outfall Sewer Organization constructed a treatment plant and outfall in the early 1920's to serve its members. It was reorganized in 1947 and 1948 into seven county sanitation districts – District Nos. 1, 2, 3, 5, 6, 7 and 11. These prior districts were formed based on engineers' analyses of the gravity flows in the service area. District No. 13 was formed in 1985 and District No. 14 was added in 1986. These districts were co-participants in a Joint Agreement which provided for the joint construction, ownership, and operation of the prior districts' joint facilities.

In April 1998, at the request of the District's Board of Directors (the "Board of Directors"), the Board of Supervisors of the County of Orange (the "County Board") passed Resolution No. 98-140 approving the consolidation of the then existing nine special districts into a new, single sanitation district, to be known as the Orange County Sanitation District. This action was designed to simplify governance structures, reduce the size of the Board of Directors, ease administrative processes, streamline decision-making and consolidate accounting and auditing processes. The consolidation was effective on July 1, 1998.

Pursuant to the Resolution and Government Code Section 57500, the prior districts transferred and assigned all of their powers, rights, duties, obligations, functions and properties to the District, and the District assumed all obligations of the prior districts which were several and not joint including, without limitation, their obligations to repay the then outstanding certificates of participation. See "FINANCIAL OBLIGATIONS – Existing Indebtedness" herein. The boundaries of the nine predecessor special districts were initially used by the District to delineate separate revenue areas (the "Revenue Areas") for budgeting and accounting purposes and in order to facilitate the imposition of fees and charges imposed by the District. See "DISTRICT REVENUES – Sewer Service Charges" herein.

The District is managed by the Board of Directors, whose members are appointed by 25 member cities and agencies which are serviced by the District. The District is responsible for construction and maintenance of a major portion of the wastewater collection, treatment and disposal facilities within its boundaries. Revenue Area No. 7 is responsible for approximately 171 miles of local sewers in its service area, whereas local sanitary districts, water districts and cities are responsible for local sewers in the remainder of the District's service area.

## **Organization and Administration**

The District is independent of and overlaps other political jurisdictions. There are many governmental entities, including the County, that operate within the District's jurisdiction. These entities are exclusively responsible for the administration of their own fiscal affairs, and the District is not entitled to operating surpluses of, or responsible for operating deficits of, any of the other entities.

The 25-member Board of Directors is composed of representatives from 21 cities, unincorporated areas of the County and three special districts, including mayors of cities, members of city councils, directors of independent special districts and one member from the County Board. Several board committees, made up of members of the Board of Directors, consider topics for action by the Board of Directors and make recommendations to the Board of Directors. The Chair and the Vice Chair of the Board of Directors are elected every year by a majority of the Board of Directors, and serve at the pleasure of the majority of the Board of Directors.

The District has a general manager, general counsel, and administrative and operating staff, with offices located at Reclamation Plant No. 1 in Fountain Valley, California. The District currently employs an administrative and operating staff of approximately 637 under the direction of its General Manager, James D. Ruth.

*James D. Ruth* is the District's General Manager, and has served in that capacity since December 2005. Prior to that time, from January 2003 to October 2004, Mr. Ruth served as Chief Executive Officer for the County of Orange. Mr. Ruth had previously provided 22 years of service to the City of Anaheim as parks and recreation director, deputy city manager, assistant city manager and chief executive officer, a post he held for 11 years.

*Robert P. Ghirelli, D.Env.* is an Assistant General Manager of the District, and has served in that capacity since July 2006. Mr. Ghirelli previously served as Director of Technical Services for the District since his joining the District in 1998. Prior to joining the District, Mr. Ghirelli served for just over a year as managing principal of the Los Angeles office of a national environmental consulting firm, and served 20 years in supervisory positions with the State Water Resources Control Board and Regional Water Quality Control Boards, including 13 years serving as Executive Officer of the California Regional Water Quality Control Board, Los Angeles/Ventura Region.

*James Herberg, P.E.* is an Assistant General Manager of the District and has served in this capacity since February 2011. He also retains the position of Director of Engineering, and has served in that capacity since November 2006. Prior to becoming Director of Engineering, he was the District's Director of Operations and Maintenance. Mr. Herberg has over 20 years of experience in water and wastewater including project management, construction management, design, strategic planning, and operations & maintenance.

*Lorenzo Tyner* is the District's Director of Finance and Administrative Services. In September 2005, Mr. Tyner joined the District with nearly 15 years of public finance and budgeting experience, most recently serving as the Los Angeles Unified School District Budget Director and Deputy Chief Financial Officer. Mr. Tyner previously worked in large government organizations including the City of Los Angeles and the Los Angeles County Metropolitan Transportation Authority and with private sector companies IBM Global Services and Northrop.

*Ed Torres* is the District's Director of Operations and Maintenance for the District. He has served the District since 1991. Prior to joining the District, Mr. Torres served in a professional capacity for the California State University System and TRW Electronics and Defense Sector. Mr. Torres has 24 years of public and private sector experience in protecting public health and the environment.

*Nick Arhontes*, P.E. is the District's Director of Facilities Support Services and has served the District since 1988. Mr. Arhontes has over 30 years of experience managing various engineered systems in the private and public sectors regionally, nationally, and internationally.

## **Services**

The District owns and operates regional wastewater collection, treatment, and disposal facilities for the metropolitan area in the northern and central portion of the County. The District receives wastewater from the collection systems of the cities, sanitary districts and unincorporated areas of the County located within the District. See "THE DISTRICT – Service Areas" herein.

Generally, local agency systems collect wastewater from residential and industrial customers and convey the wastewater to District trunk sewer pipelines for conveyance to the District's wastewater treatment plants.

The District's staff is responsible for operating and maintaining the District's infrastructure, although some work is performed by external contractors.

Currently, the District has established supply contracts for all chemicals necessary to the operation and maintenance of the facilities of the District. The District has sufficient standby systems in the event of equipment failures or system outages.

## **Service Area**

The map on the inside cover of this Official Statement shows the District's boundaries and selected cities located within the District. District boundaries were originally established in 1947 and 1948 based on drainage basins. As the existing cities have grown and new areas have incorporated, city limits have come to overlap District boundaries. The District currently serves an approximately 463 square-mile area including 23 of the County's 33 cities and various unincorporated areas of the County. The District serves a population of more than 2.5 million residents and owns sanitary sewerage facilities with a projected replacement value of approximately \$7.1 billion at December 31, 2012 when full secondary treatment facilities become fully operational.

Table 2 below sets forth the estimated populations of cities and unincorporated areas served by the District as of January 1, 2010.

**Table 2**  
**Estimated Populations of Cities and Unincorporated Areas**  
**Served by the Orange County Sanitation District**  
**As of January 1, 2010**

<u>City</u>	<u>Population</u>
Anaheim	353,640
Brea	40,380
Buena Park	84,140
Costa Mesa	117,180
Cypress	49,980
Fountain Valley	58,740
Fullerton	138,610
Garden Grove	175,620
Huntington Beach	203,480
Irvine	217,690
La Habra	63,180
La Palma	16,300
Los Alamitos	12,270
Newport Beach	86,740
Orange	142,710
Placentia	52,310
Santa Ana	357,750
Seal Beach	26,010
Stanton	39,800
Tustin	75,770
Villa Park	6,310
Westminster	94,290
Yorba Linda	<u>69,270</u>
Cities Subtotal	2,482,170
Unincorporated Areas (estimated)	<u>81,000</u>
Total	<u>2,563,170</u>

Sources: State of California Department of Finance, Demographic Research Unit for city population data; Orange County Sanitation District for population of unincorporated areas.

### **Employees**

As of September 1, 2011, the District had 590 represented and non-represented employees. Most of the District’s employees are represented by recognized employee organizations, which include the following: the Orange County Employees Association (“OCEA”), representing administrative/clerical, technical services and engineering employees since 1979, the International Union of Operating Engineers – Local 501 (“Local 501”), representing operations and maintenance employees since October 1985, and the Peace Officers Counsel of California representing the Supervisor Group and the Professional Group supervisory and professional employees since 1991. Total represented employees as of September 1, 2011 numbered 548 as follows: 96 were represented by the OCEA, 210 were represented by Local 501 and 242 were represented by the Supervisor and Professional Groups. The Supervisor and Professional Groups agreements with the District were renegotiated in 2011 and expire on June 30, 2013. The OCEA and Local 501 agreements with the District were renegotiated in 2011 and expire on June 30, 2014. The

District has historically enjoyed a good working relationship with its employee organizations and has experienced no work stoppages by represented personnel since the early 1980s.

### **Retirement Plan**

The District participates in the Orange County Employees Retirement System (“OCERS”), a cost-sharing multiple-employer, defined benefit pension plan which is governed and administered by a nine-member Board of Retirement. OCERS was established in 1945 under the provisions of the County Employees Retirement Law of 1937, and provides members with retirement, death, disability, and cost-of-living benefits.

All District full-time employees, except the General Manager, participate in OCERS. The amount of the retirement allowance is based upon the member’s age at retirement, the member’s “final compensation” as defined in Section 31462 of the Retirement Law of 1937, the total years of service under OCERS, and the employee’s classification as a Plan B, G or H member. Effective July 1, 2005, employees retiring at age 55 or older receive 2.5% of their final compensation for every year of service. Recently, the District entered into a memorandum of understanding with all represented groups that reduced the benefit formula for new employees, effective October 1, 2010 for the Supervisor and Professional Group and unrepresented employees, effective July 1, 2011 for the Local 501 Group, and effective August 1, 2011 for the OCEA Group. Employees hired into the groups after the respective effective dates are subject to 1.667% at 57.5 formula based on their final compensation for every year of service (Plan B). “Final compensation” is the highest consecutive 12 months of compensation for Plan G members and the highest consecutive 36 months of compensation divided by three for Plan B and H members. Benefits fully vest under the OCERS retirement plan upon reaching five years of service. Employees who retire at or after age 50 with ten or more years of service are eligible to receive an annual retirement allowance, but at a reduced benefit for those employees retiring prior to age 57.5 for Plan B members or prior to age 55 for Plan G and H members. OCERS also provides death and disability benefits.

As a condition of participation under the provisions of the County Employees Retirement Law of 1937, members are required to contribute a percentage of their annual compensation to OCERS. The District is required to make periodic contributions to OCERS in amounts that are estimated to remain a constant percentage of covered employees’ compensation such that, when combined with covered employees’ contributions, they will fully provide for all covered employees’ benefits by the time they retire.



A current comparison of OCERS costs for Fiscal Years 2006-07 through 2010-11 and projected costs for Fiscal Years 2011-12 and 2012-13 is shown in the following table.

**Table 3**  
**Orange County Sanitation District**  
**Comparison of OCERS Costs for Fiscal Years 2006-07 through 2010-11**  
**and Projected Costs for Fiscal Years 2011-12 through 2012-13**

<u>Fiscal Year</u>	<u>Rate</u> <sup>(1)</sup>	<u>Cost</u> <sup>(2)</sup>
2006-07	19.78%	\$ 9,848,854
2007-08	20.55	11,011,693
2008-09	21.14	12,193,601
2009-10	21.50	13,029,795
2010-11	24.20	14,176,989
2011-12 <sup>(3)</sup>	25.68	16,346,155
2012-13 <sup>(3)</sup>	27.47	17,485,548_

<sup>(1)</sup> Required contribution as a percent of covered payroll. Includes amortization of Unfunded Actuarial Accrued Liability.

<sup>(2)</sup> Amounts represent employer contributions made or to be made by the District.

<sup>(3)</sup> Projected.

Source: Orange County Sanitation District.

For Fiscal Years 2006-07 through 2010-11, the District's required contribution was equal to the contribution that the District actually made. As noted, the required contribution set forth above includes amortization of Unfunded Actuarial Accrued Liability ("UAAL"). For the Fiscal Year ended June 30, 2011, total payroll costs of employees covered by OCERS was \$58,582,598. As of the December 31, 2010 valuation, OCERS has an aggregate UAAL ratio of 69.79%, for a total UAAL of \$3.75 billion.

The District's retirement program includes Additional Retiree Benefit Account ("ARBA") benefits. ARBA benefits provide a monthly payment to retirees towards the premium costs of health insurance for the retiree and eligible dependents. The retiree is not required to use this amount for health insurance premium or to remain on the OCERS medical plan. Benefits vest upon retirement after qualifying public service of ten years. The District pays 100% of the cost for the ARBA plan and utilizes a pay-as-you-go method for funding the plan. The District paid \$248,410 in ARBA benefits during Fiscal Year 2010-11. ARBA benefits are not available to new OCEA Group employees of the District.

For more information regarding OCERS and the District's retirement plan as of June 30, 2011, see Note 6 to the Comprehensive Annual Financial Report of the Orange County Sanitation District for Fiscal Year Ended June 30, 2010 set forth in Appendix A. The Comprehensive Annual Financial Reports of the Orange County Employees Retirement System are available on the OCERS website at <http://www.ocers.org>. The information on such website is not incorporated herein by such reference or otherwise. The District cannot predict whether the OCERS investment portfolio will experience additional losses in the future; however, any future losses could result in material increases in the District's required contributions.

## **Other Post-Employment Benefits**

In June 2004, Governmental Accounting Standards Board (“GASB”) issued Statement No. 45, which requires state and local governmental employers to fund the actuarially determined annual required contribution (“ARC”) for its post-employment benefits other than pension benefits (known as other post-employment benefits or “OPEB”) or record the entire amount of the unfunded liability of its OPEB in its financial statements. OPEB includes healthcare and life insurance expenses and related liabilities, and an annual required contribution to fund such liabilities. The District adopted Statement No. 45 for the fiscal year beginning July 1, 2007, as required of a GASB “Phase 1 Agency.” According to the District’s actuary, Demsey Filliger Associates (the “Actuary”), the unfunded OPEB liability as of July 1, 2009 is approximately \$8.8 million. The ARC is \$819,692 for Fiscal Year 2010-11. Calculation of the ARC is based on the present value of benefits accruing in the current year, a 30-year amortization of the unfunded OPEB liability and an assumed rate of return on investments in the retiree fund of 5% per annum. The District does not believe that its OPEB liability will have a material impact on its operational results.

## **Risk Management**

As of the date hereof, the District has in force basic all risk property and casualty insurance, including theft, fire, flood, terrorism and boiler and machinery losses at its plants and pump stations. The District is self-insured for portions of workers’ compensation, property damage and general liability. The self-insurance portion of workers’ compensation is \$750,000 per person per occurrence with outside excess insurance coverage to the statutory limit. The self-insured portion for property damage covering fire and other disasters is \$250,000 per occurrence with outside excess insurance coverage to \$1 billion. The self-insured portion for property damage covering flood is \$100,000 per occurrence with outside excess insurance coverage to \$300 million. The District is self-insured for all property damage from the perils of earthquakes. See “DISTRICT REVENUES – Reserves.” The District also maintains outside comprehensive boiler and machinery insurance, including business interruption insurance, with a \$100 million limit with deductibles ranging from \$25,000 to \$350,000. The District is self-insured for general liability coverage up to \$250,000 per occurrence (except that employment practice liability is \$500,000), with excess general liability coverage up to \$30 million.

During the past five fiscal years there have been no settlements in excess of covered amounts. Claims against the District are processed by outside claim administrators. The District believes that there are no unrecorded claims as of June 30, 2011 that would materially affect the financial position of the District.

For more information regarding the District’s insurance coverage as of June 30, 2010, see Note 1 to the Comprehensive Annual Financial Report of the Orange County Sanitation District for Fiscal Year Ended June 30, 2010 set forth in Appendix A.

## **Existing Facilities**

The District’s Wastewater System presently consists of two wastewater treatment plants, an influent metering and diversion structure, 15 off-plant pump stations, various interplant pipelines and connections, and the ocean outfall facilities. The District’s Wastewater System includes approximately 403 miles of sewers within 11 trunk sewer systems, 176 miles of local sewers located within a portion of Revenue Area No. 7, two treatment plants, two discharge outfalls and two emergency weir outlets. The existing treatment plants have a rated primary treatment capacity of 372 mg/d, including standby capacity.

Treatment Plant No. 1 (“Plant No. 1”) is located in the City of Fountain Valley, about four miles from the coast, adjacent to the Santa Ana River. Secondary treatment capabilities are provided by a trickling filter plant and a conventional air activated sludge plant. Up to 105 mg/d of secondary treated

effluent is conveyed to an Orange County Water District (the “OCWD”) plant for tertiary treatment prior to reclamation and groundwater recharge.

Treatment Plant No. 2 (“Plant No. 2”) is located in the City of Huntington Beach, 1,500 feet from the ocean, at the mouth of the Santa Ana River. Secondary treatment capabilities are provided by a pure oxygen activated sludge plant.

The District employs several phases in the treatment of wastewater. The first phase, preliminary treatment, removes debris such as eggshells, sand and other non-biodegradable items. See also “Preferred Level of Treatment” and “Biosolids Management” below. In the next phase, primary treatment, wastewater is pumped to large settling basins. The liquids are separated from the remaining solids which settle or float as the wastewater passes through large settling basins called clarifiers. The settled solids are sent to solids treatment facilities. Substantially all of the wastewater received by the District is sent to secondary treatment for further processing because of the recent completion of the secondary expansion at Treatment Plant No. 2. During secondary treatment, the wastewater is treated with naturally occurring bacteria to remove most of the remaining dissolved and suspended microscopic organic solids. The treated wastewater from both plants is mixed together at Plant No. 2, where it is then pumped through the ocean outfall pipe that extends five miles offshore.

Table 4 below sets forth the treatment plants’ approximate current and future treatment capacities.

**Table 4**  
**Wastewater System Treatment Capacities**  
**(mg/d)**

	<b><u>2010-11 Actual Flows</u></b>	<b><u>Existing Primary Treatment Capacity</u></b>	<b><u>Existing Secondary Treatment Capacity<sup>(1)</sup></u></b>	<b><u>Total Planned Secondary Capacity<sup>(2)</sup></u></b>
Plant No. 1	99	204	122	182
Plant No. 2	<u>108</u>	<u>168</u>	<u>150</u>	<u>150</u>
Aggregate Treatment	<u>207</u>	<u>372</u>	<u>272</u>	<u>332</u>

<sup>(1)</sup> The existing secondary capacity is being expanded to meet secondary treatment standards by December 2012.

<sup>(2)</sup> The District’s “Planned Total Capacity” is based on the 2009 Facilities Master Plan for planned capacity by 2020, which estimated the District’s requirements to meet future expected primary and secondary capacity demands.

Source: Orange County Sanitation District.

The District also has the capability to divert a portion of the influent flow from Plant No. 1 to Plant No. 2 through interplant connections. A portion of the flow destined for Plant No. 2 can also be diverted to Plant No. 1. Another interplant facility allows gas generated during solids treatment to be transported between Plant No. 1 and Plant No. 2 and allows digester gas (which is used as fuel for many of the facilities’ engines) from one plant to be used at the other to balance the supply and demand, which results in efficient gas utilization.

**Permits, Licenses and Other Regulations**

The District is subject to laws, rules and permits issued by federal, state, regional and local regulatory bodies. The Wastewater System is subject to regulations imposed by the 1972 Clean Water Act, Public Law 92-500 (the “Clean Water Act”), the California Environmental Quality Act of 1970, as amended (“CEQA”) and the Federal Clean Air Act. The regulatory requirements are primarily administered by the United States Environmental Protection Agency (the “EPA”), the California Air

Resources Board, the Santa Ana Regional Water Quality Control Board (“RWQCB”), and the South Coast Air Quality Management District (“AQMD”). Regulations of these agencies deal primarily with the quality of effluent which may be discharged from the treatment plants and air quality emissions. The Clean Water Act directs the EPA to monitor and to regulate the discharge of pollution into navigable waterways and to enforce the requirements that all wastewater treatment plants in the nation provide full secondary treatment for sewage. In 1977, Congress amended the Clean Water Act to allow waivers of secondary treatment standards for certain ocean dischargers if they can demonstrate, to the satisfaction of the EPA that significant adverse environmental impacts would not occur. The District currently has all applicable permits and licenses necessary to operate its facilities.

The District has discharged treated wastewater into the Pacific Ocean under a permit issued by the EPA and the RWQCB. The discharge permit included a waiver under the 301(h) provisions of the Clean Water Act, allowing for less than full secondary treatment based on an ocean discharge of sufficient depth, distance and dilution. The permit was initially issued in 1985 and was the first modified Section 301(h) permit issued to a major wastewater treatment facility. The permit was re-issued on May 6, 1998 and expired on June 8, 2003.

In July 2002, the Board of Directors approved a change from the existing level of treatment, a blend of 50% advanced primary and 50% secondary treated wastewater, to full secondary treatment standards. See “Preferred Level of Treatment” and “Urban Runoff” below. As a result, the District established a policy to subject all wastewater discharges into the ocean to secondary treatment standards. To implement this policy, the District staff was directed to immediately proceed with the planning, design, and implementation of treatment methods with the expressed purposes of eliminating the need for the permit waiver received under Section 301(h).

Following the determination by the Board of Directors on July 2002 to implement full secondary standards, staff prepared the Secondary Treatment National Pollutant Discharge Elimination System (“NPDES”) Permit Application that was required to be submitted to the regional office of the EPA and the RWQCB in December 2002. The NPDES Permit is separate and apart from the permit waiver received under Section 301(h), and once awarded would negate the need for a waiver. Achieving secondary treatment standards was originally projected to take nine years to complete, with completion expected in December 2012. Because ocean discharge permits are issued for only five years, and the EPA has no authority to waive the discharge limit requirements or grant a longer permit (except in accordance with Section 301(h)), the District decided to voluntarily seek a consent decree concurrently with the issuance of the new ocean discharge permit.

This negotiated consent decree (the “Consent Decree”) approves the schedule and decrees that no penalties will be imposed for discharges that exceed the secondary treatment limits during the period of construction. The Consent Decree was signed by the District, the EPA and the RWQCB and filed with the U.S. District Court on November 15, 2004. The Consent Decree contains seven construction milestones and interim effluent limitations. The District is in compliance with the Consent Decree and has successfully completed five of the seven milestones within the specified deadlines required by the Consent Decree. The District expects to complete all seven milestones ahead of schedule, prior to December 31, 2012.

The District is also subject to the requirements of the Federal Clean Air Act which mandates attainment with national ambient air quality standards for criteria pollutants (ozone, particulate matter (PM10), carbon monoxide, lead, nitrogen dioxide, and sulfur dioxide). Criteria air pollutants cause adverse effects on human health and environment. AQMD is the local air pollution control agency charged with implementing the Federal Clean Air Act. In addition to criteria pollutants, AQMD also implements numerous federal and state requirements related to the toxic air pollutants which can cause cancer or other severe localized health effects. The State’s Air Toxic Hot Spots Act, for example,

requires facilities to conduct health risk assessments and notify the neighboring communities if the health risk exceeds the regulatory thresholds.

Pursuant to AQMD's requirements, the District must obtain permits before sewage treatment improvement projects can be constructed and operated. Such permits are project specific and may contain conditions that govern design criteria, operating parameters, and emissions standards. Most of the District's treatment facilities are enclosed in order to capture and treat emissions to meet regulatory emissions standards and to minimize odor impact to the neighboring communities. The District's treatment plants are also subject to the requirements of Title V of the Federal Clean Air Act amendments. The Title V permit is a single air quality permit for a facility that consolidates and replaces all of the air permits for individual pieces of equipment previously issued by the local air quality district. The permit contains all of the applicable local, state, and federal requirements, including periodic self-certification of compliance and mandatory self-reporting of permit deviation.

All Title V permit related reporting and documents submitted to the AQMD must be signed by the highest District official – in this case the General Manager. The Title V program also demands facilities to organize and conduct extensive training of the staff involved, including the field operation and maintenance staff. Another Title V important feature is a possibility of the public active participation and intervention in the cases of potential emission limits and monitoring violations. The District Title V permits did not receive any negative public responses or comments during the required public review period. The District received initial Title V permits for both treatment plants in January 2009.

The District developed the Air Toxic Emissions Reduction Strategic Plan in 2007, which evaluated the health risk impacts and risk reduction alternatives for Calendar Year 2012. This is when all treatment plant upgrades and improvements planned for completion were in place. The District currently has all necessary AQMD permits to operate the Wastewater System.

### **2009 Facilities Master Plan and Capital Improvement Program**

The District's 2009 Facilities Master Plan (the "Master Plan") was completed and adopted by the Board of Directors in December 2009. The Master Plan updated the planning processes set forth in the 1989 Master Plan, the 1999 Strategic Plan, and the 2002 Interim Strategic Plan Update. The Master Plan also incorporates and implements the levels of services defined by the District's Board of Directors that are included in the District's 2009 Five-Year Strategic Plan. The result is a plan that integrates research, facilities planning, water conservation and reclamation, sludge reuse, other wastewater programs and financial planning into a single unified approach. A key component of the Master Plan was the updating of flow projections and the collection system hydraulic modeling. A capital improvement program was developed to implement the required sewer capacity and rehabilitation improvements through the year 2030.

The Master Plan continues to support the July 17, 2002 Board of Directors' Resolution No. OCSD 02-14, "Establishing the Policy for Level of Treatment of Wastewater Discharged into the Ocean." This resolution established the District's policy to treat all wastewater discharges into the ocean to secondary treatment standards thereby providing for continued public safety, marine ecosystem protection, and water reclamation opportunities. To implement this policy, District staff was directed to immediately proceed with the planning, design, and implementation of treatment methods that will allow the agency to meet Clean Water Act secondary treatment standards. The District currently estimates that it will complete these improvements by December 2012 at a total capital improvement cost of \$623.1 million to reach secondary treatment discharge standards. In the interim, the District operates the plants to maximize available secondary treatment and to reduce effluent biochemical oxygen demand and suspended solid discharges below currently allowed limits.

The District also annually reviews and validates its current Capital Improvement Program (“CIP”). The District expects to meet future demands on the Wastewater System through the CIP. This program has been developed to satisfy anticipated regulatory requirements, increased population, anticipated rehabilitations and replacements, additional treatment requirements, conservation, energy and other resource savings considerations, odor control improvements, and air quality protection needs. Through 2030, the District’s current CIP is scheduled to accomplish:

- Major rehabilitation of the existing headworks, primary treatment, secondary treatment, outfall pumping, and solids handling facilities at both treatment plants;
- Replace and rehabilitate nine of the District’s outlying pumping stations, and 26 trunk sewer improvement projects;
- Reduce fence line odor to levels that do not generate odor complaints; and
- Achieve full secondary treatment standards.

The 2011 CIP validation study resulted in revisions to the CIP. The CIP currently consists of 145 individual capital projects through Fiscal Year 2030-31 with remaining outlays of \$1.8 billion. Over the next five years, the CIP contemplates average annual capital expenditures of \$180 million. Implementation of full secondary treatment standards is scheduled to be completed on or before December 31, 2012. A summary of total estimated capital costs for the CIP for Fiscal Years 2011-12 through 2030-31 is set forth in Table 5 below.

**Table 5  
Capital Improvement Program – Estimated Capital Costs  
Fiscal Years 2011-12 through 2030-31**

<u>Project</u>	<u>Cost</u>
Collection System Capacity	\$ 164,128,000
Collection System Repair, Rehabilitation, Replacement	335,590,000
Treatment Plant Capacity	227,253,000
Additional Secondary Treatment	141,163,000
Improved Treatment	156,503,000
Treatment Plant Repair, Rehabilitation, Replacement	646,871,000
Support Facilities	<u>143,815,000</u>
Total Validated Capital Improvement Program	<u>\$1,815,323,000</u>

Source: 2011-12 Budget Update, Orange County Sanitation District.

The CIP included budgeted expenditures of \$129.2 million in Fiscal Year 2011-12. The largest cash outlay planned for plant facilities in Fiscal Year 2011-12 was \$16.6 million for the Digester Rehabilitation at Reclamation Plant No. 1 (total project cost is expected to be \$55.5 million). The CIP’s largest collection system project for Fiscal Year 2011-12 is \$9.7 million for the rehabilitation of Magnolia Trunk Sewer.

## **Groundwater Replenishment System**

The District has taken a multi-jurisdictional approach to planning for capital facilities because many of the methods for reducing or managing flows involve other jurisdictions. One such project is the Groundwater Replenishment System (“GWRS”). In March 2001, the District entered into an agreement with the OCWD to design and construct Phase 1 of the GWRS. The capital cost of this Phase was shared equally (50% shares) by each agency. The GWRS is a joint effort by the two agencies to provide reclaimed water for replenishment of the Orange County Groundwater Basin and to augment the seawater intrusion barrier. Phase I of the GWRS became operational in January of 2008 with an expected water production of 72,000 acre-feet per year once all secondary treatment facilities are online. In 2009, GWRS produced a total of 61,000 acre-feet. Phase 2 expansion is under design to add about 33,000 acre-feet per year. Phase 2 and all future phases will be funded solely by OCWD and could expand capacity up to a total capacity of 145,600 acre-feet per year. The District and OCWD amended the 2001 agreement in 2009 to dedicate the water supply from the District to OCWD for these future phases; however, no capital funding is anticipated or dedicated from the District for these future expansion phases.

## **Preferred Level of Treatment**

In July 2002, the Board of Directors approved a change from the existing level of treatment, a blend of 50% advanced primary and 50% secondary treated wastewater, to full secondary treatment standards. The reasoning behind the decision to move to full secondary standards included (1) the possibility (no matter how remote) that bacteria from the ocean outfall may at times reach the shoreline, (2) upgraded treatment will aid additional water reclamation with the OCWD, and (3) the clearly stated public preference for upgrading wastewater treatment at the time.

In an effort to eliminate most bacteria from being released from the ocean outfall, in 2002 the District began to use chlorine bleach to disinfect the effluent and then apply sodium bisulfate to remove remaining chlorine prior to releasing the treated wastewater to the ocean. The District continues to take measures to limit the chlorine residual to a very low level prior to release. This mode of disinfection is expected to continue while the District studies, designs and constructs permanent facilities, and considers alternate disinfection technologies. Beginning in Fiscal Year 2006-07, the addition of disinfection treatment required an annual outlay ranging from \$5.3 million to \$7.2 million for additional chemicals from the operating budget of the District.

Following the determination by the Board of Directors in July 2002 to implement full secondary standards, staff prepared the Secondary Treatment NPDES Permit Application that was required to be submitted to the regional office of EPA and the RWQCB in December 2002. An NPDES permit has been issued to the District and the District is currently operating under the Consent Decree. See “THE DISTRICT – Permits, Licenses and Other Regulations.”

Currently, the District estimates that it will take approximately two years and require approximately \$193.1 million to complete the additional secondary treatment capacity project. In the interim, the District will operate the plants to maximize available secondary treatment and to reduce effluent biochemical oxygen demand and suspended solid discharges below those currently allowed limits.

## **Biosolids Management**

The District produces digested and dewatered biosolids for beneficial use. By 2013, the District’s biosolids production is anticipated to peak at approximately 766 wet tons per day (wtpd) when new secondary treatment processes are fully operational, and then is projected to decline to approximately 625 – 650 wtpd by 2016 when the IRWD’s solids processing facilities and the District’s centrifuges commence operations.

The District has a diversified biosolids management portfolio:

<u>Contractor</u>	<u>Location</u>	<u>Product</u>	<u>Contract (tons per day and term)</u>
Synagro	Kern County, CA and La Paz County, AZ	Compost	250 tpd – 10 years with two five-year renewals, expires 7/1/2024
EnerTech	City of Rialto San Bernardino County, CA	Conversion to a renewable coal substitute	225 tpd – 25 years with a one five-year option to renew, expires 12/1/2038
Tule Ranch	Dateland and Yuma Counties, AZ	Land application	175-225 tpd – One (1) year expires 12/31/2012

The District’s contractors provide back-up biosolids management options in Arizona that include land application recycling and landfill disposal. Together, these options have the capacity to manage seven to eight times the District’s daily biosolids production to ensure sustainable, consistent, and reliable operations. The District’s Long-Range Biosolids Management Plan (“LRBMP”) was approved by the Board in December 2003. The goal of the LRBMP was to develop a sustainable, reliable, and economical program for long-range biosolids management providing environmentally sound practices that meet the stringent federal, state, and local regulatory requirements.

As a result of the LRBMP recommendations, Synagro’s existing biosolids management contract was amended in April 2004, committing 250 tons per day of biosolids to be composted at Synagro’s South Kern Compost Manufacturing Facility, which started operations in late 2006.

In May 2006, the District entered into a contract with EnerTech Environmental, Inc. to convert 225 tons of biosolids per day to a renewable fuel at EnerTech’s proposed facility in Rialto, California. The EnerTech solution is a new, patented heat treatment process that reduces the energy needs to dry the biosolids in a conventional dryer, which creates the fuel pellets. The renewable fuel pellets called eFuel are sold to cement manufacturers that use the pellets as fuel to heat their kilns, which the residual ash from the fuel combustion becomes part of the cement product, resulting in no residual waste byproducts. EnerTech started commissioning its facility in October 2008 and anticipates completion in 2012.

The cost to the District for biosolids management decreased from \$20.6 million in Fiscal Year 2009-10 to \$17.8 million in Fiscal Year 2010-11. The Fiscal Year 2011-12 budget is \$18.5 million.

### **Urban Runoff**

The Board of Directors, recognizing that the beaches of the County were being affected by pollution carried by urban runoff, adopted Resolution No. OCSD 00-04 on April 26, 2000, agreeing to temporarily accept dry weather urban runoff into the Wastewater System. A subsequent revision to this initial policy, OCSD 00-22 adopted September 27, 2000, added an aggregate 10 million gallons per day (“MGD”) capacity limit for the urban runoff flows. In addition, the resolution declares that the District will initially waive fees and charges associated with authorized discharges of dry weather urban runoff to the Wastewater System until the total volume of all runoff discharges exceeds 4 MGD calculated on a monthly average, or until the District modifies this provision of its policy. Resolution No. OCSD 01-07 was adopted March 28, 2001 to clarify the District’s indemnification liability. In June 2002, legislation was enacted to formally allow the District’s charter to include the treatment of urban runoff flows.



There are a total of 19 active urban runoff diversion structures, four owned and operated by the County, 11 owned and operated by the City of Huntington Beach, one owned and operated by the City of Newport Beach, two owned and operated by the IRWD, and one owned and operated by The Irvine Company. From July 1, 2010 through June 30, 2011, the District received a daily average urban runoff flow ranging between 0.334 and 3.31 MGD with a cumulative total of 555 million gallons for this period. The daily urban runoff volume remained at less than half of the 4 MGD fee threshold for ten months out of the twelve month period. At the existing operations and maintenance cost of \$1,311.79 per million gallons (2010-2011 rate).

The District's Environmental Compliance Division administers the Dry Weather Urban Runoff Program through the issuance of a discharge permit for each of the diversion structures. The permit functions as a control mechanism to establish discharge limits, constituent monitoring, and flow metering requirements, as well as provide requirements that specifically prohibit storm runoff and authorizes discharge only during periods of dry weather. In addition, the District conducts quarterly sampling and analysis of the urban runoff discharges to ensure discharge limit compliance for the various regulated constituents.

The Dry Weather Urban Runoff Program's effectiveness is measured by improvements in the quality of recreational waters of the County as manifested by a decline in beach advisories and closures. The most recent report on beach quality by Orange County Health Agency, 2009 Annual Ocean, Harbor, & Bay Water Quality Report details the total number of Beach Mile Days that were posted due to AB 411 standards violations between April 1 and October 31. Throughout the County overall, the total number of Beach Mile Days posted in 2009 (123.5) was the lowest total on record for the 10-year period from 2000 – 2009. In addition, the total number of Beach Mile Days posted has declined in the County for four consecutive years.

Since inception of the program, the areas directly benefitting from the urban runoff diversions, Huntington State Beach and Huntington City Beach, have had significant reductions in Beach Posting Days and Beach Mile Days, with the exception of a spike at Huntington State in 2007. Though there are numerous variables impacting water quality at any given instant, the dry weather diversion appears to have contributed positively to the overall downward trend in beach closures at these locations. As a consequence, the Dry Weather Urban Runoff Program appears to have benefitted the beach going public as well as all the clean environment stakeholders of the County.

### **Integrated Emergency Response Program**

In recognition of the potential damage which could occur in the event of a major earthquake, flood, or other disaster, the District implemented an Integrated Emergency Response Program (the "IERP") in 1979. The IERP is a two-volume plan which contains policies, plans and procedures preparing for, and responding to, emergencies. The District also analyzed disaster preparedness issues and policies within the Master Plan, and within a 1994 document titled Fault Rupture Hazard Investigation – Wastewater Treatment Plant No. 2.

The disaster preparedness plan included in the Master Plan reviewed two possible major earthquake scenarios: an 8.3 Richter magnitude ("M") earthquake on the southern San Andreas fault system and an M 7.0 earthquake on the Newport-Inglewood fault zone, which includes Plant No. 2. An M 8.3 earthquake on the southern San Andreas fault, while on the whole more destructive than the M 7.0 Newport-Inglewood fault, may result in less damage to the District's service area due to the distance of the fault from most of the service area. However, the Master Plan stated that damage from such a major earthquake on the San Andreas fault would be extensive. Also, the Master Plan indicated that an M 7.0 earthquake on the Newport-Inglewood fault within five miles of the District's sewerage facilities could cause major destruction to those facilities. The disaster preparedness plan in the Master Plan indicated that it would not be economically feasible to upgrade all of the existing sanitary sewerage facilities to

survive an earthquake of this magnitude along the Newport-Inglewood fault. The IERP outlines the policies and employee actions to be taken before, during and after an earthquake, earthquake response guidelines and damage assessment procedures.

The Master Plan analyzed the vulnerability of the sanitary sewerage facilities and operations of the District and planned a risk reduction program wherein the vulnerability of many of the District's sanitary sewerage facilities to an earthquake could be reduced by recommended retrofit construction measures. The Master Plan also recommended that designs of existing major structures which were constructed prior to development of current seismic design standards be reviewed and the structures strengthened, if necessary.

Since the Master Plan and the 1994 Report, the District has completed retrofitting where deemed appropriate. Pursuant to the Master Plan, all recent and future projects have been, and will be, designed to the same high earthquake code standards as set for other essential services, such as hospitals and fire stations. Many of the older buildings analyzed in the Master Plan have been replaced by structures built after 1989.

The Army Corps of Engineers' "All-River Plan" has mitigated any future flooding of the Santa Ana River system and potential threats to the District's Wastewater System. Also, both Plant No. 1 and Plant No. 2 are built to federal standards.

The disaster preparedness plan in the Strategic Plan investigates the damage potential posed by coastal flooding, tsunamis (large ocean waves generated by seismic activity) and windstorms. No assurance can be given that any such events would not have a material adverse impact on the Wastewater System.

The Strategic Plan also makes recommendations regarding fire protection of the Wastewater System. Most of the structures at Plant No. 1 and Plant No. 2 are constructed of fire-resistant materials. The IERP describes the procedures needed to respond to a possible disaster. For more information regarding emergency response policies, the disaster preparedness plan described in the Strategic Plan and the IERP can be reviewed at the District's office.

### **Five-Year Strategic Planning**

In November 2007, the Board of Directors adopted a new comprehensive strategic plan to steer the District's efforts and engage the organization to envision service levels and operational needs for the next five years. The Strategic Plan has been updated annually thereafter to continue looking at a five-year horizon.

The November 2010 update focused on internal operations for economy and efficiency. The General Manager's Office initiated an effort, known as the Beyond 2012 Strategic Planning Framework, to guide all future planning and more tightly integrate our priorities, strategic planning and budget implementation. Working with the executive team the General Manager solicited input from District managers then held a workshop with the Board of Directors in October 2010. At this workshop the Board members discussed and deliberated changes and additions to the plan. Driven by our Mission, Vision and Core Values, this 2010 Strategic Plan Update continues an aggressive effort to meet the sanitation, health, and safety needs of its more than 2.5 million customers while protecting the environment.

Since 2007, 72% percent of the strategic goals have been completed. As a result of the discussion at the October 20 workshop, one new goal was added to the plan:

- Full-Cost Recovery – Conduct a comprehensive review of the Sanitation District's urban runoff diversion program and ensure a fair share recovery of costs for services.

This Strategic Plan continues to chart a focused roadmap of success for the future of the District. It addresses critical issues and challenges and communicates clear and concise future direction to District staff.

## DISTRICT REVENUES

### Sewer Service Charges

**General.** The District has the power to establish fees and charges for services of the Wastewater System. Such fees and charges are established by the District's Board of Directors and are not subject to review or approval by any other agencies.

In Fiscal Year 1997-98, a Rate Advisory Committee (the "RAC") was established comprised of representatives from industrial, commercial and residential users. The goal of the RAC was to examine the then current rate structure and, if needed, develop recommendations for change. The RAC analyzed the District's rate structure to determine whether its then current sewer service user fees (now known as "Sewer Service Charges") were equitable among residential and industrial customers. This review resulted in a proposal to expand the number of non-residential user categories from one to 23 and to provide for gradual rate increases in seven of the nine Revenue Areas. The increase in the number of categories provided a more equitable fee structure and also provided for future reductions in single-family residential Sewer Service Charges. The Sewer Service Charges for those categories were based on the average flow and strength of wastewater discharged for each property type and remain currently in use.

The Board of Directors establishes the annual sanitary sewer service charges by ordinance. The sanitary sewer service charge ordinances are adopted by a two-thirds vote of the Board of Directors as required under law after conducting a noticed public hearing in compliance with Proposition 218. See "LIMITATIONS ON TAXES AND REVENUES – Article XIII C and Article XIII D of the California Constitution." In May 2002, the Board of Directors adopted District Ordinance No. OCSD 18 (the "2002 Ordinance") which became effective on July 1, 2002. The 2002 Ordinance included a single family residential ("SFR") rate increase, the underlying basis for all sanitary sewer service charges including sanitary sewer rates for multi-family residential units as well as most commercial and industrial properties, of \$7.50 per year, or 9.4%, to \$87.50 per year. In June 2003, the Board of Directors authorized a Proposition 218 notice on proposed "not to exceed" rate increases for each year over the next five years.

The District collects Sewer Service Charges from property owners through the semi-annual property tax bill distributed by the County throughout the District, except in Revenue Area No. 14. Pursuant to the IRWD Agreement, the District receives quarterly fee payments from the IRWD which directly collects fees from customers through a monthly billing procedure in Revenue Area No. 14.

The District has covenanted in the Master Agreement to fix, prescribe and collect fees and charges to satisfy certain coverage requirements as further described under "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES – Rate Covenant" herein.

**Residential and Commercial Sewer Service Charges.** Pursuant to the 2002 Ordinance, the District established residential Sewer Service Charges, except within Revenue Area No. 14, based on the cost of services and facilities provided to each customer of the District. The noticed public hearing held in connection with the 2002 Ordinance considered increases in the amount of the annual charges of approximately 20% per year for each of the then following five years. In May 2005, the Board of Directors adopted Ordinance No. OCSD-26 increasing the Fiscal Year 2005-06 single family residential rate, the underlying basis for all sewer service charges, by 31%, from \$115.00 to \$151.00 for all ratepayers, except those located in Revenue Area No. 14. In June 2007, the Board of Directors adopted Ordinance No. OCSD-32 increasing the Fiscal Year 2007-08 single family residential rate by 9.8%.

On February 27, 2008, the Board of Directors approved increases in its sanitary sewer service charges for all single family and multi-family residential units, and for all commercial properties. The Board increased the single family residential rate, which is the basis for all of the District’s sewer service charges, by 10.4% for Fiscal Year 2008-09, 10.0% for Fiscal Year 2009-10, 10.4% for Fiscal Year 2010-11, 9.4% for Fiscal Year 2011-12 and 10.1% for Fiscal Year 2012-13.

Table 6 below presents a five-year comparison of the Sewer Service Charge rate for single-family residences.

**Table 6**  
**Annual Sewer Service Charges**  
**Single Family Residence Rate**  
**Five Year Rate Schedule**  
**Fiscal Years 2008-09 through 2012-13**

<u>Fiscal Year</u>	<u>Sewer Service Charge</u>	<u>Percent Increase</u>
2008-09	\$201.00	10.4%
2009-10	221.00	10.0
2010-11	244.00	10.4
2011-12	267.00	9.4
2012-13	294.00	10.1

Source: Orange County Sanitation District.

Table 7 below sets forth total average annual Sewer Service Charges for single-family (SRF) residences within the District, together with comparable total average annual charges for wastewater service within the jurisdictions of certain other cities and districts within the State as of the dates indicated. The District’s projected SFR rate of \$294 in Fiscal Year 2012-13 remains below the current average annual sewer rate of \$406 according to a Fiscal Year 2007-08 survey of 726 agencies encompassing all 58 counties in California conducted by the State Water Resources Control Board.

**Table 7**  
**Comparison of Total Sewer Service Charges**  
**For Single-Family Residences**  
**As of July 1, 2011 (Sacramento as of October 1, 2011)**

<u>Entity</u>	<u>Average Dry Weather Flow (mg/d)<sup>(3)</sup></u>	<u>Annual Sewer Service Charge<sup>(1)</sup></u>	<u>Treatment Level<sup>(2)(3)</sup></u>	<u>Collection Responsibility<sup>(3)</sup></u>	<u>Property Tax Income<sup>(3)</sup></u>
City of San Diego	168	\$608	2	Yes	No
City of Los Angeles	428	360	4	Yes	No
East Bay MUD	80	288	4	No	Yes
Sacramento	140	312	3	No	Yes
Orange County Sanitation District	221	267	2	No	Yes
Los Angeles County	497	143	4	No	Yes

<sup>(1)</sup> Source: Information obtained from respective entities listed.

<sup>(2)</sup> Treatment Level Categories:

“1” – Primary treatment.

“2” – Advanced primary or primary with some secondary treatment.

“3” – Secondary treatment.

“4” – Advanced secondary or secondary with some tertiary treatment.

“5” – Tertiary treatment.

<sup>(3)</sup> Source: Wastewater User Charge Survey Report by the California State Water Resources Control Board.

**Industrial Sewer Service Charges.** The District charges industrial Sewer Service Charges to customers discharging high-strength or high-volume wastes into the sewer systems. Customers subject to industrial Sewer Service Charges are billed directly by the District. The fee charged to each customer is based on the customer’s sewage volume, the concentration of suspended solids and biochemical oxygen demand. Pursuant to the 2002 Ordinance, rates for each component factor were revised for certain industrial users in order to be consistent with the rates charged to residential users. Total industrial Sewer Service Charges in Fiscal Year 2010-11 were approximately \$10.9 million. Industrial Sewer Service Charges are applied to both operating and capital funds.

The Sewer Service Charge increases described above are necessary to meet the District’s cash flow needs arising from the addition of disinfection treatment and other operating requirements. As discussed under the caption “THE DISTRICT – 2009 Facilities Master Plan and Capital Improvement Program,” the 2011 CIP Validation Study developed the capital improvement program to ensure secondary treatment standards are met as quickly as possible while providing for increased flows and rehabilitation and refurbishment of existing facilities. As projected through Fiscal Year 2030-31, the cash flow needs of the CIP total approximately \$1.8 billion. Over the next five years the CIP contemplates average annual capital expenditures of \$180 million.

### **Additional Revenues**

The District has several sources of additional revenue, including property taxes, Capital Facilities Capacity Charges, capacity rights, permit and inspection fees and interest earnings.

**Property Taxes.** The District receives approximately 2.5% of the one percent County *ad valorem* property tax levy, based on the allocation procedure under State law. Property tax revenues were \$40.0 million in Fiscal Year 2005-06, \$60.6 million in Fiscal Year 2006-07, \$65.2 million in Fiscal Year 2007-08, \$66.4 million in Fiscal Year 2008-09 and \$64.8 million in Fiscal Year 2009-10. In Fiscal Years 2003-

04 and 2004-05 the State implemented a two-year 40% secured property tax shift away from independent special districts due to the fiscal crisis occurring at that time. During the 2004-05 State Budget process, the State Legislature and the Governor enacted Senate Bill 1096 and Assembly Bill 2115, effectively shifting an additional \$1.3 billion in local property tax revenues from counties, cities, special districts and redevelopment agencies to schools and community colleges. See “LIMITATIONS ON TAXES AND REVENUES –Proposition 1A.” Total assessed valuations increased in the 2005-06 Fiscal Year by 10.3% over the 2004-05 Fiscal Year, and the full value of these increases was received on all non-secured property tax distributions. The District received its full allotment of property tax revenues (no State property tax shift) beginning in Fiscal Year 2006-07. See Table 14 below. The District currently projects its property tax receipts to remain approximately level through Fiscal Year 2012-13. The apportionment of the *ad valorem* tax is pursuant to a revenue program adopted by the District in April 1979 to comply with EPA and RWQCB mandates, legal and contractual requirements and Board of Directors policy.

***Capital Facilities Capacity Charges.*** Capital Facilities Capacity Charges (commonly referred to as connection fees) are one-time fees with two components, paid at the time property is developed and connected to the Wastewater System. The fees are imposed by the District pursuant to Section 5471 of the California Health and Safety Code and are levied to pay a portion of the District’s capital costs and for access to capacity in the Wastewater System. Currently, the District has Capital Facilities Capacity Charges of \$3,341 per residential unit (three-bedroom); however, under the current industrial use ordinance, additional Capital Facilities Capacity Charges can be imposed on industrial users who place larger than average demand on the Wastewater System. Member cities and sanitary districts collect Capital Facilities Capacity Charges for the District when building permits are issued. Capital Facilities Capacity Charges are reviewed annually to reflect the changes in the value of the Wastewater System to which a new customer is connecting.

On December 15, 1999, the Board of Directors approved District Ordinance No. OCSO 99-11 (the “1999 Ordinance”) which established a comprehensive Capital Facilities Capacity Charge. The 1999 Ordinance, effective as of January 1, 2000, renamed connection fees as Capital Facilities Capacity Charges and provided a more equitable schedule of fees among industrial, commercial and residential users. Pursuant to the 1999 Ordinance, Capital Facilities Capacity Charges were revised for high demand industrial users in five incremental increases from 1999 through 2001. For a summary of historical and projected revenues derived from Capital Facilities Capacity Charges, see Table 14 and Table 15 below.

Pursuant to an agreement with the IRWD, the IRWD is not required to pay Capital Facilities Capacity Charges and, in exchange, the IRWD provides funding to the District for the construction costs of certain wastewater collection, transmission, treatment and disposal facilities to be used by the IRWD and is obligated to make certain payments to the District for certain services arising from the Wastewater System (including any standby or availability charges).

***Sale of Capacity.*** The District has entered into agreements with the Santa Ana Watershed Project Authority (“SAWPA”) whereby wastewater from Upper Santa Ana River Basin dischargers can be transported through the District’s Santa Ana River Interceptor to the District’s wastewater treatment facilities. This program was developed in the early 1970’s. The agreements establish control mechanisms regarding the quality of wastes deposited into the Wastewater System. At the present time, SAWPA has purchased and paid for 30 mg/d of maximum regulated flow capacity rights in the District’s Santa Ana River Interceptor and 17 mg/d of monthly average flow capacity in the District’s wastewater treatment plants. Projected revenues from SAWPA range from \$6.3 million to \$7.2 million over the next four years. Additional treatment plant capacity can be purchased in increments at the District’s current replacement cost.

**Federal Subsidy Payments.** In connection with the District’s Revenue Obligations, Series 2010A (the “2010A Certificates”) and the District’s Revenue Obligations, Series 2010C (the “2010C Certificates”), issued as “Build America Bonds,” the District will receive certain federal subsidy payments of approximately \$5.1 million annually through 2031 and lesser amounts thereafter until 2044. Subsidy payments with respect to the 2010A Certificates and the 2010C Certificates will constitute Revenues as defined in the Master Agreement. In its financial reports, the District accounts for subsidy payments received in connection with the 2010A Certificates and the 2010C Certificates as a reduction in interest expense with respect to such obligations.

**Wastewater Treatment History**

The average wastewater flows for Fiscal Year 2006-07 through Fiscal Year 2010-11 were 229 mg/d, 221 mg/d, 211 mg/d, 196 mg/d and 207 mg/d, respectively. The highest flow rate experienced was during El Niño storm periods. Peak flows of 500 mg/d were recorded in December 1997 and February 1998. There were no sewer failures or overflows during these events.

**Customers**

The historical number of customers served by the District for the Fiscal Years 2006-07 through 2010-11 and the projected number of customers served by the District for the Fiscal Years 2011-12 through 2015-16, identified in Equivalent Dwelling Units (“EDUs”), are set forth in Table 8 and Table 9 below. As discussed below, sewer service charges are based on the expected amount of wastewater flow for a single family dwelling. This base amount is considered the “equivalent dwelling unit.” The EDUs set forth in Table 8 equate to total Sewer Service Charge levies while the EDUs set forth in Table 9 equate to total sewer service charge collections.

**Table 8  
Historical and Projected Equivalent Dwelling Units  
Fiscal Years 2006-07 through 2015-16**

<u>Fiscal Year</u>	<u>Historical EDUs</u> <sup>(1)</sup>	<u>Fiscal Year</u>	<u>Projected EDUs</u>
2006-07	907,986	2011-12	926,990 <sup>(2)</sup>
2007-08	911,033	2012-13	929,401 <sup>(3)</sup>
2008-09	921,782	2013-14	931,910 <sup>(3)</sup>
2009-10	930,164	2014-15	934,519 <sup>(3)</sup>
2010-11	924,622	2015-16	937,229 <sup>(3)</sup>

<sup>(1)</sup> With respect to such Fiscal Years, presentation in the Statistical Section of the District’s Comprehensive Annual Financial Report set forth in Appendix A includes EDUs that equate to total Sewer Service Charge collections rather than levies.

<sup>(2)</sup> EDUs projected in current budget as of June 2011.

<sup>(3)</sup> EDU growth during the projection period is estimated at approximately 2.6% to 2.9% per annum.

Source: Orange County Sanitation District.

Table 9 below shows the number of residential and commercial customers and industrial customers and the approximate percentages of Sewer Service Charge revenues derived from the combined residential and commercial use and industrial use for the last five fiscal years.

**Table 9**  
**Number of Accounts and Revenues by Customer Class**  
**for the Fiscal Years 2005-06 through 2009-10**  
**(\$ in Millions)**

<u>Fiscal Year</u>	<u>Residential/Commercial</u>			<u>Industrial</u>		
	<u>Number of Equivalent Single-Family Dwellings</u>	<u>Total Revenue</u>	<u>Percentage of Sewer Service Charge Revenues</u>	<u>Number of Customer Accounts</u>	<u>Total Revenue</u>	<u>Percentage of Sewer Service Charge Revenues</u>
2995-06	872,859	\$132.0	92%	557	\$12.2	8%
2006-07	867,035	143.8	91	531	13.4	9
2007-08	875,739	159.4	93	520	12.1	7
2008-09	882,747	177.4	95	515	9.9	5
2009-10	875,442	193.5	95	487	10.8	5

Source: Orange County Sanitation District.

The ten largest principal sewer service customers of the District for the Fiscal Year ended June 30, 2010 are shown in Table 10 below.

**Table 10**  
**Largest Principal Sewer Service Customers of the District**  
**for the Fiscal Year Ended June 30, 2010**

<u>User</u>	<u>Sewer Service Charges</u>
Kimberly-Clark Worldwide, Inc.	\$ 1,325,796
MCP Foods, Inc.	1,313,284
Alstyle Apparel-A&G Inc.	1,019,603
Stremicks Heritage Foods, LLC	629,473
House Foods America Corp.	534,052
Pepsi-Cola Bottling Group	419,539
Ameripecc Inc.	410,545
Pulmuone Wildwood, Inc.	409,974
Morningstar Foods, LLC	360,198
Angelica Textile Services	<u>321,568</u>
Total	<u>\$ 6,744,031</u>

Source: Orange County Sanitation District.



## Assessed Valuation

The assessed valuation of property in the County is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Due to changes in assessment required under State Constitution Article XIII A, the County assessment roll no longer purports to be proportional to market value. See "LIMITATIONS ON TAXES AND REVENUES" herein. Generally, property can be reappraised to market value only upon a change in ownership or completion of new construction. The assessed value of property that has not incurred a change of ownership or new construction must be adjusted annually to reflect inflation at a rate not to exceed 2% per year based on the State consumer price index. In the event of declining property value caused by substantial damage, destruction, economic or other factors, the assessed value must be reduced temporarily to reflect market value. For the definition of full cash value and more information on property tax limitations and adjustments, see "LIMITATIONS ON TAXES AND REVENUES" herein.

The County Assessor determines and enrolls a value for each parcel of taxable real property in the County every year. The value review may result in a reduction in value. Taxpayers in the County also may appeal the determination of the County Assessor with respect to the assessed value of their property.

Table 11 below shows a five-year history of assessed valuations in the District since Fiscal Year 2006-07.

**Table 11**  
**Assessed Valuations of Property in the District**  
**Fiscal Years 2006-07 through 2010-11**  
**(\$ in Billions)**

<u>Fiscal Year</u>	<u>Value</u>	<u>% Change</u>
2006-07	\$270.7	11.93%
2007-08	292.7	8.14
2008-09	307.6	5.08
2009-10	305.2	(0.98)
2010-11	304.3	(0.27)

Source: County of Orange Auditor-Controller.

Prior to 2006, the housing market in Southern California experienced significant price appreciation. During this period, many homebuyers financed the purchase of their new homes using non-conventional loans. Such loans were made with little or no down payment and included adjustable interest rates subject to being reset at higher rates on a specified date or upon the occurrence of specified conditions. In addition, many of these loans allow the borrower to pay interest only for an initial period, in some cases up to ten years.

Starting in 2006, housing developers, appraisers and real estate consultants began to report weakening of prices for single-family homes. There has been tightening of underwriting criteria for mortgage loans such that most lenders now require down payments, stricter verification, higher income to loan ratios, higher credit ratios or some combination of such factors. These factors have contributed to a decrease in home sales as prospective purchasers are unable to qualify for loans. Declining home sales in some areas of Southern California have resulted in a decrease in home prices. As home values decline, homebuyers may not be able to obtain replacement financing because the outstanding loan balances exceed the value of their homes. Due to the limiting effect of Proposition 13 on assessed valuations, declines in the market value of property in the County will not necessarily result in decreased property tax

revenue in the near term. In fact, assessed valuations of property in the District for Fiscal Year 2008-09 increased by \$14.9 billion, or 5.08%, over Fiscal Year 2007-08 valuations. For Fiscal Years 2009-10 and 2010-11, however, the County reduced assessed valuations by 0.98% and 0.27%, respectively, as a result of further decreases in market value, leading to decreased property tax collections. Assessed valuations tend to lag economic activity. Given the severity of the recent recession, the sharp decline in the market value of real estate, and the complexity of the methodology by which property is assessed, the District cannot accurately forecast the long-term impact of the recent recession on assessed valuations and property tax receipts.

**Tax Levies and Delinquencies**

Property taxes are based on assessed valuation which is determined as described under “DISTRICT REVENUES – Assessed Valuation” herein. In accordance with the California Revenue and Taxation Code, the County tax collector collects secured tax levies for each Fiscal Year. Property taxes on the secured roll are due in two installments, on November 1 and February 1. The District currently participates in the County’s Teeter Plan under which the District receives annually 100% of the secured property tax levies and Sewer Service Charges to which it otherwise is entitled, regardless of whether the County has actually collected the levies. This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at fiscal year end. Under this plan, the District’s general fund receives the full amount of secured property taxes levied each year on its behalf and, for so long as such plan remains in effect, the participating entities, such as the District, no longer experience delinquent taxes. The County’s general fund is the designated recipient of future collections of penalties and interest on all delinquent taxes collected on behalf of participants in this alternative method of apportionment. In recent years, the County has experienced delinquencies of Sewer Service Charges in the District of approximately 2%.

Table 12 below presents a five-year history of the District’s *ad valorem* total property tax and Sewer Service Charge levies.

**Table 12**  
**Total Property Tax and Sewer Service Charge Levies**  
**in the District for Fiscal Years 2006-07 through 2010-11**  
**(In Thousands)**

<u>Fiscal Year</u>	<u>Total Tax and Sewer Service Charge Levy</u>
2006-07	\$209,766
2007-08	228,622
2008-09	254,092
2009-10	272,050
2010-11	292,646

Source: Orange County Auditor-Controller’s Office.

## **Budgetary Process**

The District's operating fund budget relies on revenues from Sewer Service Charges and property taxes, both of which are collected on the property tax bill. See "DISTRICT REVENUES — Sewer Service Charges" and " — Additional Revenues." The District receives tax revenues from the County in eight allocations, with the largest receipts in December and April. The District operates on a Fiscal Year beginning each July 1. The operating fund budgets include funds to cover the dry period of each tax year, *i.e.*, the period from the beginning of the Fiscal Year until the first taxes are received. The dry-period requirement is budgeted at one-half of the annual operating fund budgeted expenditures. The District uses the accrual method of accounting in its budgets. The District has conformed to its budgets for the last five fiscal years and is conforming to its budget for the current fiscal year.

The District's annual budget preparation process begins in January of each year and concludes in June upon its adoption. The General Manager reviews the final operating budgets and then distributes them to the Directors and District Committees for consideration. The Board of Directors then adopts the proposed annual budgets, with any revisions, in June of each year.

Budgetary control is exercised at the individual Department level and administrative policies provide guidelines on budget transfers and the authorization necessary to implement transfers. A budget adjustment is a transfer which does not change the total appropriated amount and does not require Board of Directors action. Approval may be granted by the General Manager or the Department Head in certain circumstances. Department Heads have the discretion to reappropriation funds between certain line items within a division but may not exceed total appropriated amounts for each department. They may also transfer staff across divisional lines. The General Manager and Board of Directors must approve additional capital outlay items.

A budget amendment is an adjustment to the total appropriated amount which was not included in the original budget. These supplemental appropriations require formal action by the Board of Directors. Prior year reserves or fund balances may be appropriated to fund items not previously included in the adopted budget. Reserves or fund balances exceeding minimum amounts required by fiscal policies may be appropriated if it is determined to be in the best interest of the District. Directors may also appropriate reserves in case of emergencies or unusual circumstances.

## **Reserves**

The District has an established reserve policy with eight separate categories for its reserve funds. Collectively, these individual reserve requirements total over \$482 million for each year of the current ten-year cash flow forecast. In Fiscal Year 2009-10, Financial Management staff and the Board of Directors concluded that given the nature of the likely events that may cause a withdrawal from the District's reserves and the degree of overlap among reserve categories, the total amount reserved need not equal the sum of each separate reserve category. As a result, the District adjusted the application of its reserve policy, leading to a reduction of \$40 million of the accumulated total, or approximately 8 percent. The following table sets forth actual reserves at June 30, 2008, June 30, 2009, June 30, 2010 and June 30, 2011, for each fund. Reserve levels are calculated in accordance with the District's reserve policy.

**Table 13**  
**Cash Reserves**  
**June 30, 2008 through 2011**  
**(In Millions)**

	<u>Actual</u>			<u>Projected</u>
	<u>2008</u> <u>(June 30)</u>	<u>2009</u> <u>(June 30)</u>	<u>2010</u> <u>(June 30)</u>	<u>2011</u> <u>(June 30)</u>
Cash Flow Requirements Reserve —				
Operating Expenses	\$ 70	\$ 73	\$ 78	\$ 75
Certificates of Participation Payments	65	84	92	97
Operating Contingencies Reserve	14	15	15	15
Capital Improvement Program Reserve	165	116	86	113
Catastrophe and Self Insurance	57	58	57	57
Capital Replacement and Refurbishment	54	55	56	57
Debt Service Required Reserves <sup>(1)</sup>	108	133	129	147
Overlapping Reserve Adjustment	-	-	(40)	-
Total	<u>\$ 533</u>	<u>\$ 534</u>	<u>\$ 473</u>	<u>\$561</u>

<sup>(1)</sup> “Debt Service Required Reserves” constitute all amounts held in Obligation Reserve Funds, together with additional amounts held by the District that may be used for the payment of debt service on District obligations in accordance with the District’s reserve policy. As of June 30, 2011, \$90.2 million of Debt Service Required Reserves were held in Obligation Reserve Funds restricted by covenant for the specific obligations for which such Obligation Reserve Funds were established.

Source: Orange County Sanitation District.

The District has the following reserves:

- The Cash Flow Requirements Reserve was established to fund operation, maintenance and certificates of participation debt service expenses for the first half of the fiscal year, prior to the receipt of the first installment of the property tax allocation and sewer service user fees which are collected as a separate line item on the property tax bill. The level of this reserve is established as the sum of an amount equal to six months operations and maintenance expense and the total of certificates of participation debt service expenses due in the subsequent fiscal year.
- The Operating Contingencies Reserve was established to provide for non-recurring expenditures that were not anticipated when the annual budget and Sewer Service Charges were adopted. The level of this reserve is equal to 10% of the District’s annual operating budget.
- The Capital Improvement Program Reserve was established to fund annual increments of the Capital Improvement Program with a target level at one-half of the average annual Capital Improvement Program through the year 2020. Levels higher and lower than the target can be expected while the long-term financing and capital improvement programs are being finalized.
- The Catastrophic Loss, or Self-Insurance Reserve is established for property damage including fire, flood and earthquake, general liability and workers’ compensation. The level of reserve in this fund is maintained at a level to fund the District’s non-reimbursed costs which are estimated to be \$57 million.
- The Capital Replacement and Refurbishment Reserve was established to provide 30% of the funding to replace or refurbish the current collection, treatment and disposal facilities. The current replacement value of these facilities is estimated to be approximately \$6.92 billion. The

initial reserve level for this fund was established at \$50 million and is augmented by interest earnings and a portion of the annual Sewer Service Charges.

- Debt Service Required Reserves include trustee-held amounts in any Obligation Reserve Fund and additional amounts held by the District for the payment of debt service in accordance with the District's reserve policy. The District's current policy is to maintain reserves (including trustee-held reserves) for debt service in the amount of 10% of the principal amount of the District's outstanding debt obligations.
- The Rate Stabilization Reserve accumulates all available funds which exceed the targets for all other reserves. The Rate Stabilization Reserve is a separate fund from the Rate Stabilization Account established under the Trust Agreement. There is currently no established target for this reserve and, because the reserves of all other funds have not been exceeded, the reserve level for this reserve fund is zero for Fiscal Year 2009-10.

### **Summary of Operating Data**

Set forth in Table 14 below is a summary of historic operating results for the District for Fiscal Years 2005-06 through 2009-10 and unaudited results for Fiscal Year 2010-11. The information presented in the summary should be read in conjunction with the financial statements and notes. See APPENDIX A — "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE ORANGE COUNTY SANITATION DISTRICT FOR FISCAL YEAR ENDED JUNE 30, 2010."

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**Table 14**  
**Summary of Historical District Revenues and Expenses**  
**and Other Financial Information**  
**For Fiscal Years 2006-07 through 2010-11**  
**(\$ in Millions)**

	<u>Audited</u>				<u>Unaudited</u>
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Revenues:					
Residential & Commercial Sewer Service Charges <sup>(1)</sup>					
Regional	\$143.8	\$159.4	\$177.4	\$193.5	\$214.3
Local	-	-	5.6	5.6	5.7
Industrial Sewer Service Charges	13.4	12.1	9.9	10.8	10.6
Revenue Area No. 14 Fees	5.2	7.1	10.3	10.2	15.5
Ad Valorem Taxes	60.6	65.2	66.4	64.8	64.3
Interest Earnings	22.2	20.2	14.8	19.2	10.1
Capital Facilities Capacity Charges <sup>(2)</sup>	50.2	35.4	17.9	(2.4)	(8.8)
Other Revenues	8.3	6.9	5.8	12.5	9.5
Total Revenues	<u>\$303.7</u>	<u>\$306.3</u>	<u>\$308.1</u>	<u>\$314.2</u>	<u>321.2</u>
Operations and Maintenance Expenses <sup>(3)</sup>	<u>112.2</u>	<u>131.9</u>	<u>164.6</u> <sup>(6)</sup>	<u>138.1</u>	<u>137.2</u>
Net Revenues <sup>(4)</sup>	<u>\$141.3</u>	<u>\$139.0</u>	<u>\$125.6</u>	<u>\$178.5</u>	<u>\$192.8</u>
Debt Service	<u>\$ 48.8</u>	<u>\$ 42.8</u>	<u>\$ 57.6</u>	<u>\$ 77.3</u>	<u>\$ 83.6</u>
Coverage Ratios <sup>(4)</sup>	2.90x	3.25x	2.18x	2.31x	2.31x
CIP Outlay	<u>\$287.5</u>	<u>\$259.4</u>	<u>\$290.1</u>	<u>\$251.1</u>	<u>\$135.9</u>
Ending Reserves <sup>(5)</sup>	<u>\$293.0</u>	<u>\$425.0</u>	<u>\$401.0</u>	<u>\$344.0</u>	<u>\$413.5</u>

<sup>(1)</sup> Net of rebates, if any, to commercial users. Local sewer service fees were not established until Fiscal Year 2008-09.

<sup>(2)</sup> Includes capital contributions from IRWD.

<sup>(3)</sup> Excludes depreciation and amortization expenses.

<sup>(4)</sup> Calculated in accordance with Master Agreement, which excludes CFCC from Net Revenues.

<sup>(5)</sup> Excludes debt service reserves in accordance with the District's Debt Service Required Reserves Policy.

<sup>(6)</sup> During the fiscal year ended June 30, 2009, independent agreed-upon procedures were conducted on Revenue Area 14 to substantiate the IRWD's owner equity interest in the District. As a result, a one-time other operating expense of \$29 million was charged to the Consolidated Revenue Area for the year ended June 30, 2009.

Source: Orange County Sanitation District.

## Projected Operating Data

Set forth in Table 15 below are projected operating results for the District for Fiscal Years 2011-12 through 2015-16. These projections assume the number of projects and scheduled build out set forth in the 2011 CIP Validation Study, and reflect Board-approved annual rate increases over the next two years of 9.4%, and 10.1%, respectively. The following three years thereafter are projected at 7.0% for each year. Principal expenditure components of these projections are derived from the 2011 CIP Validation Study, which identified 176 individual capital projects through Fiscal Year 2030-31 with remaining outlays of \$1.8 billion. Much of the construction is scheduled during the next five years, with average annual expenditures of \$180 million. The District's CIP cash flow budget for Fiscal Year 2010-11 was \$179.6 million. The District's CIP cash flow budget for Fiscal Year 2011-12 is \$129.2 million. This CIP budget finances joint works treatment and disposal system improvement projects, and collection system improvement projects. The preparation of such projections was based upon certain assumptions and certain forecasts with respect to conditions that may occur in the future. While the District believes that these assumptions and forecasts are reasonable for the purposes of the projected selected operating data, it makes no representations that they will in fact occur. To the extent that actual future conditions differ from those assumed herein, the data will vary.

**Table 15**  
**Summary of Projected District Revenues and Expenses**  
**and Other Financial Information**  
**for Fiscal Years 2011-12 through 2015-16**  
**(\$ in Millions)<sup>(3)</sup>**

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
Residential & Commercial					
Sewer Service Charges	\$248.5	\$276.9	\$299.5	\$321.0	\$344.2
Industrial Sewer Service Charges	11.4	12.5	13.4	14.4	15.4
IRWD Assessments	13.9	14.6	15.6	15.4	16.2
SAWPA Assessments	4.4	4.5	4.6	4.7	4.9
Ad Valorem Taxes	63.4	63.4	66.5	69.9	73.4
Interest Earnings	11.7	12.0	15.2	17.1	16.1
Capital Facilities Capacity Charges	(14.5)	-	16.4	8.7	9.5
Other Revenues	<u>1.3</u>	<u>1.7</u>	<u>1.7</u>	<u>1.7</u>	<u>1.8</u>
Total Revenues	\$340.1	\$385.6	\$432.9	\$452.9	\$481.5
Add: Build America Bonds Federal Subsidy	5.1	5.1	5.1	5.1	5.1
Less: Operations and Maintenance Expenses	(152.5)	(169.5)	(179.0)	(189.4)	(202.0)
Capital Facilities Capacity Charges	<u>14.5</u>	<u>-</u>	<u>(16.4)</u>	<u>(8.7)</u>	<u>(9.5)</u>
Net Revenues <sup>(1)</sup>	<u>\$207.2</u>	<u>\$221.2</u>	<u>\$242.6</u>	<u>\$259.9</u>	<u>\$275.1</u>
Debt Service	\$ 92.2	\$ 96.1	\$113.8	\$100.6	\$100.5
Build America Bonds Federal Subsidy	<u>5.1</u>	<u>5.1</u>	<u>5.1</u>	<u>5.1</u>	<u>5.1</u>
Gross Debt Service	<u>\$ 97.3</u>	<u>\$101.2</u>	<u>\$118.9</u>	<u>\$105.7</u>	<u>\$105.6</u>
Coverage Ratios <sup>(1)</sup>	<u>2.13x</u>	<u>2.19x</u>	<u>2.04x</u>	<u>2.46x</u>	<u>2.61x</u>
CIP Outlays	<u>\$129.2</u>	<u>\$169.0</u>	<u>\$212.3</u>	<u>\$173.4</u>	<u>\$214.3</u>
Debt Proceeds	<u>\$ -</u>	<u>\$120.0</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending Reserves <sup>(2)</sup>	<u>\$573.4</u>	<u>\$643.4</u>	<u>\$585.2</u>	<u>\$572.2</u>	<u>\$514.8</u>

Footnotes on next page.

- (1) Calculated in accordance with the Master Agreement and the Installment Purchase Agreement.
- (2) Excludes debt service reserves in accordance with the District's Debt Service Required Reserve Policy.
- (3) Assumptions:
  - a) Annual growth in equivalent dwelling units is projected to increase 0.25% over the next five years.
  - b) The Residential and Commercial Sewer Service Charge and the Industrial Sewer Service Charges are forecasts are based on the total projected equivalent dwelling units, and the actual board approved annual rate increases over the next two years of 9.4%, and 10.1%, respectively. The following three years thereafter are projected at 7.0% for each year.
  - c) The Capital Facility Capacity Charge forecast is based on the total projected equivalent dwelling units along with a 5.0% project annual increase in the rate.
  - d) Revenue Area No. 14 Fees are derived based on the projected contribution of sewage flows to the District from the IRWD.
  - e) Ad Valorem Taxes are projected to remain level through Fiscal Year 2012-13, with 5% annual increases thereafter.
  - f) Interest earnings are projected to average 2.5% of annual cash balances.
  - g) Operating and Maintenance Expenses are forecasted with a base increase of 7.0% per year with adjustments for known periodic outlays that do not occur annually.
  - h) Annual CIP Outlays are based on the cash flow projections developed from the CIP Validation Study.

Source: Orange County Sanitation District.

## **Management's Discussion and Analysis of Operating Data**

The District's Fiscal Year 2011-12 total operating, capital improvement, debt service, and other financing requirement budget is \$405.8 million, an 11.6 percent decrease over the prior year budget of \$459.0 million. The decrease in the Fiscal Year 2011-12 budget is primarily due to the timing of the construction schedules on the implementation of the overall 20-year \$1.8 billion Capital Improvement Program. The District's Fiscal Years 2011-12 budgets include \$129.2 million in capital improvement outlays as the District moves towards reaching secondary treatment standards by the target date of December 31, 2012, as specified by the Board of Directors' July 2002 resolution and in keeping with the terms and conditions of its ocean discharge permit and related Consent Decree.

The Fiscal Year 2011-12 operations budget for the collection, treatment, and disposal of wastewater is \$154.7 million, a \$2.2 million or 1.4 percent increase over the prior year budget of \$152.5 million. Although individual expense categories will increase or decrease slightly, the overall increase to the operating budget is primarily attributable to an increase in personnel costs which will increase \$2.7 million, or 2.8 percent as a result of existing employee contract agreements as staffing has been reduced by 4 full time equivalent ("FTE") positions in Fiscal Year 2011-12 to an authorized staffing level of 637 FTE positions. Contractual services have been budgeted at an increase of \$1.5 million, or 6.4 percent, due primarily to a \$0.75 million, 4.5 percent increase in solids removal. Biosolids production is estimated to increase at both plants by 8.3 percent in Fiscal Year 2011-12 to 287,000 wet tons due to increases in secondary treatment as new secondary treatment processes become operational. Operating materials and supplies are being proposed to decrease \$1.6 million, or 6.5 percent, over the prior year due primarily to the increases in chemical coagulants, odor control, and disinfection being less than anticipated. Utility costs were increased by \$0.4 million, or 4.3 percent over the prior year, primarily due to the increased usage of electricity as secondary treatment facilities continue to become operational.

In preparation for the Fiscal Year 2010-12 budget, a strategic planning workshop was held by the Board of Directors to review the capital program to deliver the level of services desired by the Board. These levels of services and associated capital projects are included in the District's Five-Year Strategic Plan. In addition, District staff reviewed each ongoing CIP project to ensure that the scope of the project remains appropriate, and that the cost estimates have been accurately updated. The Fiscal Year 2011-12 CIP cash flow budget was approved at \$129.2 million. The Fiscal Year 2010-12 CIP includes three projects totaling \$627 million over the life of the CIP to upgrade the District's treatment plants to meet secondary treatment standards. This CIP also includes the 23 recommended projects identified in the 2009 Facilities Master Plan (the "Master Plan"). The result was the addition of \$169.3 million to the overall CIP through the year 2030. Over this period, the CIP will accomplish:



- Rehabilitation of the existing headworks, primary treatment, secondary treatment, outfall pumping, and solids handling facilities at both treatment plants;
- Replacement and rehabilitation of nine of the District's outlying pumping stations, and rehabilitation and upgrade of 29 trunk sewer improvement projects;
- Optimization of the production of "power" and "biosolids" at each of the treatment plants;
- Reclamation of up to 150 mg/d of the District's effluent; and
- Secondary treatment standards by December 2012.

The 2009 CIP Validation Study reaffirmed the need for further rate increases in future years. Based on the results of the CIP Validation Study and the five-year plan, the Board of Directors adopted Ordinance No. OCSD-35, increasing the sanitary sewer service charges by approximately 10 percent each year for a five-year period beginning in Fiscal Year 2008-09. These rate increases were approved by a vote of two-thirds of the members of the Board of Directors and are not subject to reaffirmation in any of the future fiscal years covered by this five-year period. This action increased the single family residence user rate, the basis for all sewer user fee rates, from \$221 to \$244 in Fiscal Year 2010-11, and to \$267 in Fiscal year 2011-12. See "DISTRICT REVENUES – Sewer Service Charges."

### **Investment of District Funds**

State statutes authorize the District to invest in obligations of the United States Government, state and local governmental agencies, negotiable certificates of deposits, bankers acceptances, commercial paper, reverse repurchase agreements and a variety of other investment instruments which are allowable under California Government Code Section 53600 et seq.

All District funds, except for Obligation Reserve Funds controlled by a bank trustee pursuant to the provisions of Existing Senior Obligations, are managed by an external money manager, Pacific Investment Management Company ("PIMCO"). Mellon Trust ("Mellon Trust") serves as the District's independent custodian bank for its investment program. Callan Associates ("Callan") serves as the District's independent advisor.

As of August 1, 2011, the District's externally managed fund consisted of a short-term investment portfolio of \$54.6 million with an average maturity of 110 days, and a long-term investment portfolio of \$281.7 million with average maturities of 2.6 years. Investments consist of United States government securities, corporate bonds and commercial paper. The District's portfolio contains no structured investment vehicles ("SIVs") or reverse repurchase agreements.

Deposits in banks are maintained in financial institutions which provide deposit protection on the bank balance from the Federal Deposit Insurance Corporation. The California Government Code requires State banks and savings and loans to secure local government deposits by pledging government securities equal to 110% of the deposits or by pledging first trust deed mortgage notes equal to 150% of the deposits.

The District's Investment Policy requires that the District invest public funds in a manner which ensures the safety and preservation of capital while meeting reasonable anticipated operating expenditure needs, achieving a reasonable rate of return and conforming to all state and local statutes governing the investment of public funds. The primary objectives, in order, of the District's investment activities are safety, liquidity and return on investment.

## FINANCIAL OBLIGATIONS

### Existing Indebtedness

Currently, the District has Senior Obligations Outstanding payable on a parity with the Installment Payments under the Installment Purchase Agreement. The table below describes the District's outstanding certificates of participation as of October 3, 2011, and also includes the Revenue Obligations. The payment obligations in connection with each series of these certificates constitute Senior Obligations, subject to the provisions of the Master Agreement and shall be afforded all of the benefits, interests and security afforded Senior Obligations pursuant to the Master Agreement. The District has no general obligation bonds or subordinate bonds outstanding.

**Table 16**  
**Outstanding Senior Obligations**  
**As of October 3, 2011**

	<u>Original Principal Amount</u>	<u>Issue Date</u>	<u>Outstanding Balance</u>	<u>Final Maturity</u>
2000 Certificates	\$ 218,600,000	08/31/00	\$ 91,900,000 <sup>(1)</sup>	08/01/30
2003 Certificates	280,000,000	08/26/03	108,180,000 <sup>(1)</sup>	02/01/33
2007A Certificates	95,180,000	05/22/07	93,060,000	02/01/30
2007B Certificates	300,000,000	12/20/07	284,825,000	02/01/37
2008A Certificates	77,165,000	05/29/08	25,710,000	08/01/13
2008B Certificates	27,800,000	09/11/08	26,550,000	08/01/16
2009A Certificates	200,000,000	05/07/09	194,595,000	02/01/39
2010A Certificates	80,000,000	05/18/10	80,000,000	02/01/40
2010B Certificates	154,665,000	11/23/10	154,665,000	11/23/11 <sup>(2)</sup>
2010C Certificates	157,000,000	11/29/10	157,000,000	02/01/44
2011A Certificates	147,595,000	10/03/11	147,595,000	02/01/26
Total Senior Obligations	<u>\$1,738,005,000</u>		<u>\$1,364,080,000</u>	

<sup>(1)</sup> Reflects the refunding of the 2000 Refunded Certificates and the 2003 Refunded Certificates. See "REFUNDING PLAN" herein.

<sup>(2)</sup> The District expects to refund the 2010B Certificates (referenced herein as the 2010 Notes) with Senior Obligations amortizing over a term of approximately 24 years.

In connection with the execution and delivery of the above-referenced outstanding certificates of participation, the District entered into certain installment purchase agreements, or equivalent documents, providing for the payment of installment payments or similar payments.

### Variable Rate Obligations

In August 2000, the District caused the execution and delivery of the Orange County Sanitation District Refunding Certificates of Participation, Series 2000-A (the "2000-A Certificates") and the Orange County Sanitation District Refunding Certificates of Participation, Series 2000-B (the "2000-B Certificates" and, together with the 2000-A Certificates, the "2000 Certificates") in the original aggregate principal amount of \$218,600,000, of which \$181,700,000 is currently outstanding. The payment of the purchase price of tendered 2000 Certificates is supported by a Standby Certificate Purchase Agreement, dated as of August 1, 2010 (the "Standby Agreement"), by and between the District and Lloyds TSB Bank plc, acting through its New York Branch. The Standby Agreement currently expires on August 24, 2012. The 2000 Certificates are expected to be prepaid in part in the aggregate principal amount of

\$89,800,000 upon execution and delivery of the Revenue Obligations. See “REFUNDING PLAN” herein.

### **Anticipated Financings**

From time to time the District expects to incur other obligations to finance portions of the CIP. In fiscal year 2012-13, the District expects to incur further Additional Senior Obligations in an aggregate principal amount of approximately \$120 million for the purpose of funding the capital improvement program. The District may also refinance outstanding obligations from time to time. The District intends to refinance its 2010 Notes, currently outstanding in the aggregate principal amount of \$154,665,000, on or before November 23, 2011.

### **Direct and Overlapping Bonded Debt**

The aggregate direct and overlapping bonded debt of the District as of June 30, 2010 is set forth on page 52 of Appendix B.

## **THE CORPORATION**

The Corporation was organized on June 19, 2000 as a nonprofit public benefit corporation pursuant to the Nonprofit Public Corporation law of the State. The Corporation’s purpose is to render assistance to the District in its acquisition of equipment, real property and improvements on behalf of the District. Under its articles of incorporation, the Corporation has all powers conferred upon nonprofit public benefit corporations by the laws of the State, provided that it will not engage in any activity other than that which is necessary or convenient for, or incidental to the purposes for which it was formed.

The Corporation is a separate legal entity from the District. It is governed by a twenty-five member Board of Directors. The Corporation has no employees. All staff work is performed by employees of the District. The members of the Corporation’s Board of Directors are the Board of Directors of the District.

The District’s Director of Finance and Administrative Services and other District employees are available to provide staff support to the Corporation.

The Corporation has not entered into any material financing arrangements other than those referred to in this Official Statement. Further information concerning the Corporation may be obtained from the Orange County Sanitation District office at 10844 Ellis Avenue, Fountain Valley, California, 92708-7018.

## **LIMITATIONS ON TAXES AND REVENUES**

### **Article XIII A of the California Constitution**

On June 6, 1978, California voters approved Proposition 13 (“Proposition 13”), which added Article XIII A to the State Constitution (“Article XIII A”). Article XIII A, as amended, limits the amount of any *ad valorem* tax on real property to one percent of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) (as a result of an amendment to Article XIII A approved by State voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-third of the voters on such indebtedness, and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school

facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. Article XIII A defines full cash value to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under “full cash value,” or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year or to reflect a reduction in the consumer price index or comparable data for the area under the taxing jurisdiction, or reduced in the event of declining property values caused by substantial damage, destruction, or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as described above.

### **Legislation Implementing Article XIII A**

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the County and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

Beginning in the 1981-82 fiscal year, assessors in the State no longer record property values on tax rolls at the assessed value of 25% of market value which was expressed as \$4 per \$100 assessed value. All taxable property is now shown at full market value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

### **Article XIII B of the California Constitution**

An initiative to amend the State Constitution entitled “Limitation of Government Appropriations” was approved on September 6, 1979, thereby adding Article XIII B to the State Constitution (“Article XIII B”). Under Article XIII B, the State and each local governmental entity has an annual “appropriations limit” and is not permitted to spend certain moneys that are called “appropriations subject to limitation” (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the appropriations limit. Article XIII B does not affect the appropriations of moneys that are excluded from the definition of “appropriations subject to limitation,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities’ 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.

“Appropriations subject to limitation” are authorizations to spend “proceeds of taxes,” which consist of tax revenues, state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the cost reasonably borne by such entity in providing the regulation, product or service,” but “proceeds of taxes” excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on appropriations of

funds which are not “proceeds of taxes,” such as reasonable user charges or fees, and certain other non-tax funds.

Not included in the Article XIII B limit are appropriations for the debt service costs of bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government and appropriations for qualified capital outlay projects. The appropriations limit may also be exceeded in certain cases of emergency.

The appropriations limit for the District in each year is based on the District’s limit for the prior year, adjusted annually for changes in the cost of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the District’s option, either (1) the percentage change in State per capita personal income, or (2) the percentage change in the local assessment roll on nonresidential property. Either test is likely to be greater than the change in the cost of living index, which was used prior to Proposition 111. Change in population is to be measured either within the jurisdiction of the District or the County as a whole.

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate “proceeds of taxes” received by a District over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years. As originally enacted in 1979, the District’s appropriations limit was based on 1978-79 authorizations to expend proceeds of taxes and was adjusted annually to reflect changes in cost of living and population (using different definitions, which were modified by Proposition 111). Starting with Fiscal Year 1990-91, the District’s appropriations limit was recalculated by taking the actual Fiscal Year 1986-87 limit, and applying the annual adjustments as if Proposition 111 had been in effect. The District does not anticipate that any such appropriations limitations will impair its ability to make Installment Payments as required by the Installment Purchase Agreement.

### **Proposition 1A**

Proposition 1A (“Proposition 1A”), proposed by the Legislature in connection with the 2004-05 Budget Act and approved by the voters in November 2004, restricts State authority to reduce major local tax revenues such as the tax shifts permitted to take place in Fiscal Years 2004-05 and 2005-06. Proposition 1A provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature.

Proposition 1A provides, however, that beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. Such a shift may not occur more than twice in any ten-year period. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

For Fiscal Year 2009-10, approximately \$5 million of the District’s property tax revenues were diverted to the State as a result of a Proposition 1A suspension. The District participated in a Proposition 1A Securitization Program (the “Program”) sponsored by the California Statewide Communities

Development Authority. The Program allowed the District to exchange its anticipated State property tax receivable for an equal amount of cash.

Proposition 1A also provides that if the State reduces the vehicle license fee (“VLF”) rate currently in effect, 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

### **Article XIIC and Article XIID of the California Constitution**

Proposition 218, a State ballot initiative known as the “Right to Vote on Taxes Act,” was approved by the voters on November 5, 1996. The initiative added Articles XIIC and XIID to the California Constitution, creating additional requirements for the imposition by most local governments of “general taxes,” “special taxes,” “assessments,” “fees,” and “charges.” Proposition 218 became effective, pursuant to its terms, as of November 6, 1996, although compliance with some of its provisions was deferred until July 1, 1997, and certain of its provisions purport to apply to any tax imposed for general governmental purposes (*i.e.*, “general taxes”) imposed, extended or increased on or after January 1, 1995 and prior to November 6, 1996.

Article XIID imposes substantive and procedural requirements on the imposition, extension or increase of any “fee” or “charge” subject to its provisions. A “fee” or “charge” subject to Article XIID includes any levy, other than an *ad valorem* tax, special tax or assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership. Article XIID prohibits, among other things, the imposition of any proposed fee or charge, and, possibly, the increase of any existing fee or charge, in the event written protests against the proposed fee or charge are presented at a required public hearing on the fee or charge by a majority of owners of the parcels upon which the fee or charge is to be imposed. Except for fees and charges for water, sewer and refuse collection services, the approval of a majority of the property owners subject to the fee or charge, or at the option of the agency, by a two-thirds vote of the electorate residing in the affected area, is required within 45 days following the public hearing on any such proposed new or increased fee or charge. The California Supreme Court decisions in *Richmond v. Shasta Community Services District*, 32 Cal.4th 409 (2004) (“*Richmond*”), and *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205 (2006) (“*Bighorn*”) have clarified some of the uncertainty surrounding the applicability of Section 6 of Article XIID to service fees and charges. In *Richmond*, the Shasta Community Services District charged a water connection fee, which included a capacity charge for capital improvements to the water system and a fire suppression charge. The Court held that both the capacity charge and the fire suppression charge were not subject to Article XIID because a water connection fee is not a property-related fee or charge because it results from the property owner’s voluntary decision to apply for the connection. In both *Richmond* and *Bighorn*, however, the Court stated that a fee for ongoing water service through an existing connection is imposed “as an incident of property ownership” within the meaning of Article XIID, rejecting, in *Bighorn*, the water agency’s argument that consumption-based water charges are not imposed “as an incident of property ownership” but as a result of the voluntary decisions of customers as to how much water to use.

Article XIID also provides that “standby charges” are considered “assessments” and must follow the procedures required for “assessments” under Article XIID and imposes several procedural requirements for the imposition of any assessment, which may include (1) various notice requirements, including the requirement to mail a ballot to owners of the affected property; (2) the substitution of a property owner ballot procedure for the traditional written protest procedure, and providing that “majority protest” exists when ballots (weighted according to proportional financial obligation) submitted in opposition exceed ballots in favor of the assessments; and (3) the requirement that the levying entity

“separate the general benefits from the special benefits conferred on a parcel” of land. Article XIID also precludes standby charges for services that are not immediately available to the parcel being charged.

Article XIID provides that all existing, new or increased assessments are to comply with its provisions beginning July 1, 1997. Existing assessments imposed on or before November 5, 1996, and “imposed exclusively to finance the capital costs or maintenance and operations expenses for [among other things] water” are exempted from some of the provisions of Article XIID applicable to assessments.

Article XIIC extends the people’s initiative power to reduce or repeal existing local taxes, assessments, fees and charges. This extension of the initiative power is not limited by the terms of Article XIIC to fees, taxes, assessment fees and charges imposed after November 6, 1996 and absent other authority could result in retroactive reduction in any existing taxes, assessments, fees or charges. In *Bighorn*, the Court concluded that under Article XIIC local voters by initiative may reduce a public agency’s water rates and delivery charges. The Court noted, however, that it was not holding that the authorized initiative power is free of all limitations, stating that it was not determining whether the electorate’s initiative power is subject to the public agency’s statutory obligation to set water service charges at a level that will “pay the operating expenses of the agency, . . . provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.”

The District implemented a five-year plan beginning in Fiscal Year 2002-03 which included a rate increase of \$7.50 per year, or 9.4%, for all ratepayers to \$87.50 per year. In May 2003, the Board of Directors approved a 15% rate increase per year, for each year, over the then following five years, upon 2/3 vote of the Board of Directors after conducting a noticed public hearing in compliance with Article XIID. The Board of Directors considered this increase necessary to provide needed capital improvements, to cover additional treatment and disinfection costs, and to minimize rate increases over an extended period of time. On July 2, 2003, the Board of Directors adopted Ordinance No. OCSD-20 increasing sanitary sewer service charges for all single family and multi-family residential units as well as most commercial and industrial properties. The Ordinance was adopted by a 2/3 vote of the Board of Directors as required under law after conducting a noticed public hearing in compliance with all laws. The Ordinance increases the amount of the annual charges by approximately 15% per year for each of the following five years, commencing with Fiscal Year 2003-04, thereby raising the single family residence user rate from the then current \$87.50 to \$100.00, \$115.00, \$132.00, \$152.00, and \$175.00 annually. The Ordinance discounted by 5% the annual increases which were the subject of the required protest hearings on the fee increase as described above. After the completion of the CIP Validation Study for Fiscal Year 2005-06 that increased its ten year CIP cash flow projects to \$2.2 billion, or an average of \$220 million per year, the Board of Directors adopted Ordinance No. OCSD-26 increasing the Fiscal Year 2005-06 single family residential rate 31%, from \$115 to \$151 for such year. In May 2006, the Board of Directors adopted Ordinance No. OCSD-30B increasing the Fiscal Year 2006-07 single family residential rate 9.8%, from \$151.00 to \$165.80 for such year, except those located in Revenue Area 14. These increases represented the increase permitted under the protest hearings on the fee increase which was held in 2003. In June 2007, the Board of Directors adopted Ordinance No. OCSD-32 increasing the Fiscal Year 2007-08 single family residential rate by 9.8%. In February 2008, after a noticed public hearing, the Board of Directors adopted Ordinance No. OCSD-35, which provides for annual increases in the single family residential rate of 10.4%, 10.0%, 10.4%, 9.4% and 10.1%, respectively, for Fiscal Years 2008-09 through 2012-13.

Pursuant to the Master Agreement, the District will, to the extent permitted by law, fix, prescribe and collect fees and charges for the services of the Wastewater System which will be at least sufficient to yield during each Fiscal Year (a) Net Revenues equal to 125% of Debt Service on Senior Obligations for such Fiscal Year, and (b) Net Operating Revenues equal to 100% of Debt Service on all Obligations for

such Fiscal Year. The District may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but will not reduce the fees and charges then in effect unless the Revenues and Net Revenues from such reduced fees and charges will at all times be sufficient to meet the requirements of the Master Agreement. In the event that service charges are determined to be subject to Article XIID, and proposed increased service charges cannot be imposed as a result of a majority protest, such circumstances may adversely effect the ability of the District to generate revenues in the amounts required by the Master Agreement, and to make Installment Payments as provided in the Installment Purchase Agreement. No assurance may be given that Articles XIIC and XIID will not have a material adverse impact on Net Revenues.

### **Other Initiative Measures**

Articles XIIA, XIIB, XIIC and XIID were adopted pursuant to California's constitutional initiative process. From time to time other initiative measures could be adopted by California voters, placing additional limitations on the ability of the District to increase revenues.

### **LEGAL MATTERS**

The validity of the Revenue Obligations and certain other legal matters are subject to the approving opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Special Counsel to the District. A complete copy of the proposed form of Special Counsel opinion is attached as Appendix F hereto. Special Counsel, in its capacity as Special Counsel to the District, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed on for the District and the Corporation by Woodruff, Spradlin & Smart, a Professional Corporation, Costa Mesa, California, and for the District by Fulbright & Jaworski L.L.P., Disclosure Counsel to the District.

### **FINANCIAL ADVISOR**

The District has retained Public Resources Advisory Group as financial advisor (the "Financial Advisor") in connection with the execution and delivery of the Revenue Obligations. The Financial Advisor has not been engaged, nor have they undertaken, to audit, authenticate or otherwise verify the information set forth in the Official Statement, or any other related information available to the District, with respect to accuracy and completeness of disclosure of such information. The Financial Advisor has reviewed this Official Statement but makes no guaranty, warranty or other representation respecting accuracy and completeness of the information contained in this Official Statement.

### **ABSENCE OF 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 best knowledge of the District, threatened against the District affecting the existence of the District or the titles of its directors or officers to their offices or seeking to restrain or to enjoin the sale or delivery of the Revenue Obligations, 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 Revenue Obligations, the Trust Agreement, the Master Agreement, the Installment Purchase Agreement or any action of the District contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement, or contesting the powers of the District or its authority with respect to the Revenue Obligations or any action of the District contemplated by any of said documents, nor, to the knowledge of the District is there any basis therefor.



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 best knowledge of the District, threatened against the District contesting or affecting the ability of the District to collect amounts from which Installment Payments are payable, or which would have a material adverse effect on the District's ability to make Installment Payments.

## **FINANCIAL STATEMENTS**

The basic financial statements of the District included in Appendix A to this Official Statement have been audited by Mayer Hoffman McCann P.C., independent certified public accountants. See APPENDIX A – “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE ORANGE COUNTY SANITATION DISTRICT FOR FISCAL YEAR ENDED JUNE 30, 2010” herein. The District has received the Government Finance Officer's Association Certificate of Achievement for “Excellence in Financial Reporting” for 16 consecutive years. The audited financial statements, including the footnotes thereto, should be reviewed in their entirety. Mayer Hoffman McCann P.C. has consented to the inclusion of its report as Appendix A but has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Mayer Hoffman McCann P.C. with respect to any event subsequent to its report dated October 20, 2010.

## **TAX MATTERS**

The Internal Revenue Code of 1986 (the “Code”), imposes certain requirements that must be met subsequent to the execution and delivery of the Revenue Obligations for the interest component of each Installment Payment (the “Interest Component”), and the allocable portion thereof distributable in respect of each Revenue Obligation (the “Certificate Interest Distribution”), to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause such amounts to be included in gross income for federal income tax purposes retroactive to the date of delivery of the Installment Purchase Agreement and the Revenue Obligations. The District and the Corporation have covenanted to maintain the exclusion of the interest on the Revenue Obligations from the gross income of the owners thereof for federal income tax purposes. In rendering its opinions with respect to the Revenue Obligations as described below, Special Counsel will rely upon representations and covenants of the District and the Corporation (including such covenant noted above) made in connection with the execution and delivery of the Revenue Obligations, and will assume that all such representations are true and correct and that the District and the Corporation will comply with all such covenants.

In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Special Counsel, under existing statutes, regulations, rulings and court decisions, the Interest Component allocable to and the Certificate Interest Distributions in respect of a Revenue Obligation is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, the Interest Component allocable to and the Certificate Interest Distributions in respect of a Revenue Obligation is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. In the further opinion of Special Counsel, under existing statutes, regulations, rulings and court decisions, the Revenue Obligations are not “specified private activity bonds” within the meaning of section 57(a)(5) of the Code and, therefore, the Interest Component allocable to and the Certificate Interest Distributions in respect of a Revenue Obligation will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of the Interest Component allocable to and the Certificate Interest Distributions in respect of a Revenue Obligation owned by a corporation may affect the computation of the alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

To the extent that a purchaser of a Revenue Obligation acquires that Revenue Obligation at a price in excess of its “stated redemption price at maturity” (within the meaning of section 1273(a)(2) of the Code), such excess will constitute “bond premium” under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized over the remaining term of the obligation (or a shorter period in the case of certain callable obligations); the amount of premium so amortized will reduce the owner’s basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser's yield to maturity. The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when its Revenue Obligation is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the Revenue Obligation to the owner. Purchasers of Revenue Obligations at a price that includes bond premium should consult their own tax advisors with respect to the computation and treatment of such bond premium, including, but not limited to, the calculation of gain or loss upon the sale, redemption or other disposition of the Revenue Obligation.

Pursuant to the Trust Agreement and in the *Tax Certificate Pertaining to Arbitrage and Other Matters under Sections 103 and 141-150 of the Internal Revenue Code of 1986*, to be delivered by the District and the Corporation in connection with the issuance of the Revenue Obligations, the District and the Corporation will make representations relevant to the determination of, and will make certain covenants regarding or affecting, the exclusion of interest on the Revenue Obligations from the gross income of the owners thereof for federal income tax purposes. In reaching its opinions described above, Special Counsel will assume the accuracy of such representations and the present and future compliance by the District and the Corporation with such covenants. Further, except as stated above, Special Counsel will express no opinion as to any federal or state tax consequences of the receipt of interest on, or the ownership or disposition of, the Revenue Obligations.

Special Counsel has not undertaken to advise in the future whether any events after the date of execution and delivery of the Installment Purchase Agreement and the Revenue Obligations may affect the tax status of the Interest Component or the Certificate Interest Distributions. No assurance can be given that future legislation, if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of such amounts from personal income taxation by the State of California or of the exclusion of the interest on the Revenue Obligations from the gross income of the owners thereof for federal income tax purposes. Furthermore, Special Counsel will express no opinion as to any federal, state or local tax law consequences with respect to the Installment Purchase Agreement, the Revenue Obligations, the Interest Component or Certificate Interest Distributions, if any action is taken with respect to the Installment Purchase Agreement, the Revenue Obligations or the proceeds thereof, or the Trust Agreement predicated or permitted upon the advice or approval of other counsel.

Although Special Counsel is of the opinion that Interest Component and Certificate Interest Distributions in respect of a Revenue Obligation are exempt from California personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner’s federal, state or local tax liability may be otherwise affected by the ownership or disposition of the Revenue Obligations. The nature and extent of these other tax consequences will depend upon the owner’s other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Revenue Obligations should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Revenue Obligations and the Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the Revenue Obligations), (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including Interest Component and Certificate Interest

Distributions in respect of the Revenue Obligations, (iii) Interest Component and Certificate Interest Distributions accrued in respect of Revenue Obligations owned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including Interest Component and Certificate Interest Distributions accrued in respect of Revenue Obligations, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, Interest Distributions and Certificate Interest Distributions accrued in respect of Revenue Obligations owned by such recipients for federal income tax purposes, and (vi) under section 32(i) of the Code, receipt of investment income, including Interest Component and Certificate Interest Distributions accrued in respect of Revenue Obligations, may disqualify the recipient thereof from obtaining the earned income credit. Special Counsel has expressed no opinion regarding any such other tax consequences.

Special Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District and the Corporation described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Special Counsel, and Special Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Revenue Obligations is commenced, under current procedures the Service is likely to treat the District as the "taxpayer," and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the Interest Component and Certificate Interest Distributions accrued in respect of Revenue Obligations, the District may have different or conflicting interest from the owners. Public awareness of any future audit of the Revenue Obligations could adversely affect the value and liquidity of the Revenue Obligations during the pendency of the audit, regardless of its ultimate outcome.

On September 12, 2011, President Obama submitted to Congress the "American Jobs Act of 2011" (the "American Jobs Act"), which, if enacted, could result in additional federal income tax being imposed on certain owners of tax-exempt obligations, including the Revenue Obligations, for tax years beginning on or after January 1, 2013. As proposed, the American Jobs Act would limit for certain individual taxpayers the value of certain deductions and exclusions, including the exclusion for tax-exempt interest, to 28 percent irrespective of the actual marginal tax rate imposed on such taxpayers. The American Jobs Act or other similar legislation, if enacted, could directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Revenue Obligations from gross income for federal income tax purposes. The introduction or enactment of the American Jobs Act or other similar legislation could also affect the market value and liquidity of the Revenue Obligations. Prospective purchasers of the Revenue Obligations should consult with their own tax advisors with respect to the American Jobs Act or other pending or proposed tax legislation.

A copy of the form of opinion of Special Counsel to be delivered at the closing of the Revenue Obligations is included in Appendix F.

#### **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Causey Demgen & Moore Inc., certified public accountants (the "Verification Agent"), will deliver a report stating that the firm has verified (i) the accuracy of mathematical computations concerning the adequacy of the cash and Government Obligations initially deposited in the 2003 Escrow Fund to pay the principal and interest due with respect to the 2003 Refunded Certificates to and including the 2003 Prepayment Date, and to pay on the 2003 Prepayment Date the 2003 Prepayment Price thereof and (ii) certain mathematical computations supporting the conclusion that the Revenue Obligations are

not “arbitrage bonds” under the Code, which will be used in part by Special Counsel in concluding that the Interest Payments and Certificate Interest Distributions are excluded from gross income for federal income tax purposes under present law, including applicable provisions of the Code, existing court rulings, regulations and Internal Revenue Service rulings.

The report of the Verification Agent will include the statement that the scope of its engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to it and that the Verification Agent has no obligation to update its report because of events occurring, or data or information coming to its attention, after the date of its report.

### **CONTINUING DISCLOSURE**

The District has covenanted for the benefit of holders and beneficial owners of the Revenue Obligations (a) to provide certain financial information and operating data (the “Annual Report”) relating to the District and the property in the District not later than eight months after the end of the District’s Fiscal Year (which currently would be March 1), commencing with the report for the 2010-11 Fiscal Year, and (b) to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the Trustee on behalf of the District, with the Municipal Securities Rulemaking Board. The notices of enumerated events will be filed by the Trustee on behalf of the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is set forth in the Continuing Disclosure Agreement. See APPENDIX D – “FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made in order to assist the Initial Purchaser in complying with S.E.C. Rule 15c2-12 (the “Rule”). During the past five years, the District has never failed to comply in all material respects with any previous undertaking with respect to the Rule to provide annual reports or notices of material events.

### **RATINGS**

The Revenue Obligations will be rated “AAA” by Standard & Poor’s Financial Services LLC (“S&P”), and “AAA” by Fitch Ratings (“Fitch”). Such ratings reflect only the views of the rating agencies, and do not constitute a recommendation to buy, sell or hold the Revenue Obligations. Explanation of the significance of such ratings may be obtained only from the respective organizations at: Standard & Poor’s Ratings Services, 55 Water Street, New York, New York 10041 and Fitch Ratings, One State Street Plaza, New York, New York 10004. There is no assurance that any such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the respective rating agencies, if in the judgment of any such rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Revenue Obligations.

### **PURCHASE AND REOFFERING**

Merrill Lynch, Pierce, Fenner & Smith Incorporated, (the “Initial Purchaser”) has purchased the Revenue Obligations from the District at a competitive sale for a purchase price of \$167,655,357.55 (representing the aggregate principal amount of the Revenue Obligations, plus a premium of \$20,390,657.30, and less an Initial Purchaser’s discount of \$330,299.75). The public offering prices may be changed from time to time by the Initial Purchaser. The Initial Purchaser may offer and sell Revenue Obligations to certain dealers and others at prices lower than the offering prices shown on the inside cover page hereof.



**APPENDIX A**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE ORANGE COUNTY  
SANITATION DISTRICT FOR FISCAL YEAR ENDED JUNE 30, 2010**

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# Comprehensive Annual Financial Report

for the Period Ended June 30, 2010



**Orange County Sanitation District, California**

"We protect public health and the environment by providing effective  
wastewater collection, treatment, and recycling."



**ORANGE COUNTY SANITATION DISTRICT**  
**Financial Management Division**  
**10844 Ellis Avenue**  
**Fountain Valley, California 92708-7018**

**(714) 962-2411**  
**[www.ocsd.com](http://www.ocsd.com)**

**6/30/10**

**ORANGE COUNTY SANITATION DISTRICT  
ORANGE COUNTY, CALIFORNIA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2010

Prepared By:  
Administrative Services Department  
Financial Management Division

Michael D. White, CPA  
Controller

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**ORANGE COUNTY SANITATION DISTRICT**  
 Comprehensive Annual Financial Report  
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 For the Year Ended June 30, 2010

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# ORANGE COUNTY SANITATION DISTRICT

We protect public health and the environment by providing effective wastewater collection, treatment, and recycling.

October 20, 2010

The Board of Directors of the  
Orange County Sanitation District,  
Orange County, California

Submitted herewith is the Comprehensive Annual Financial Report of the Orange County Sanitation District, Orange County, California for the fiscal year ended June 30, 2010. This report includes the financial position and activity of individual revenue areas, as described within the Governmental Structure below, as of June 30, 2010 and was prepared by the Financial Management Division of the Sanitation District's Administrative Services Department.

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Sanitation District. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Sanitation District. All disclosures necessary to enable the reader to gain an understanding of the agency's financial activities have been included.

Included within the accompanying financial statements are all of the organizations, activities, and functions controlled by the Sanitation District's Board of Directors in accordance with the Governmental Accounting Standards Board Statement Number 14, "The Financial Reporting Entity". For the purpose of this evaluation, control was determined by the Board's responsibility for: (1) adoption of the budget and user charges, (2) taxing authority, and (3) establishment of policies. The reporting entity and its services are described in further detail in Note 1 of the financial statements.

An audit of the books, financial records and transactions of the Sanitation District is conducted annually by independent certified public accountants. The Sanitation District selected the accounting firm of Mayer Hoffman McCann P.C. to perform the audit for the year ended June 30, 2010. The auditors' report on the Sanitation District's basic financial statements and supplementary information is located on page 1 within the financial section of this report. This report renders an unqualified opinion on the Sanitation District's basic financial statements for the year ended June 30, 2010.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

## GOVERNMENTAL STRUCTURE

The Orange County Sanitation District encompasses the Northern section of Orange County. The Sanitation District provides wastewater treatment for an area of the County covering 480 square miles and serving a population of approximately 2.6 million, or 81 percent of the County's population. The Sanitation District was originally incorporated in 1954 as nine separate public corporations, or districts. In April of 1998, at the Sanitation District's request, the Board of Supervisors of the County of Orange passed Resolution No. 98-140 ordering the consolidation of these nine County Sanitation Districts into a new, single sanitation district, to be known as the Orange County Sanitation District, effective July 1, 1998. This action was recommended to the Board by the Local Agency Formation Commission in order to simplify governance structures, reduce the size of the Board, ease administrative processes, streamline decision-making and consolidate accounting and auditing processes. The boundaries of the nine previous districts had remained intact for the purpose of collecting sewer user fees at the previously established rate schedules, and were referred to as nine individual revenue areas through June 30, 2000. Effective July 1,



Serving  
Anaheim  
Brea  
Buena Park  
Cypress  
Fountain Valley  
Fullerton  
Garden Grove  
Huntington Beach  
Irvine  
La Habra  
La Palma  
Los Alamitos  
Newport Beach  
Orange  
Placentia  
Santa Ana  
Seal Beach  
Stanton  
Tustin  
Villa Park  
Yorba Linda  
Costa Mesa  
Sanitary District  
Midway City  
Sanitary District  
Irvine Ranch  
Water District  
County of Orange

2003, all Revenue Areas, except Revenue Area 14, consolidated user fee rates and all enterprise fund accounting and budgeting activities and are now known as the Consolidated Revenue Area.

The Sanitation District is managed by an administrative organization composed of directors appointed by the agencies or cities which are serviced by the Sanitation District. Each of the two remaining Revenue Areas, the Consolidated Revenue Area and Revenue Area 14, has its own budget and is responsible for the construction and maintenance of its own collection system. All Revenue Areas, except Revenue Area 14 and the portion of the Consolidated Revenue Area previously known as Revenue Area 13, receive their own share of the one-percent ad valorem property tax levy. In addition, all Revenue Areas except Revenue Area 14, collect user fees from property owners. Revenue Area 14 receives all of its revenues from service charges to the Irvine Ranch Water District.

The purpose of the Sanitation District's wastewater management program is to protect the public's health, preserve the beneficial uses of the coastal waters, and maintain air quality. The objectives of operating the treatment plants are to process and dispose of the treated wastewater and the separated solids in accordance with Federal, state, and local laws including the Environmental Protection Agency.

The Sanitation District sewerage system includes approximately 579 miles of sewers that convey wastewater generated within the Sanitation District's boundaries to the Sanitation District's two wastewater treatment plants, Reclamation Plant No. 1 located in the City of Fountain Valley, and Treatment Plant No. 2 located in the City of Huntington Beach.

Plants No. 1 and No. 2 have primary treatment capacities, including standby, of 204 million gallons per day (mgd) and 168 mgd, respectively. In fiscal year 2009-10, approximately 77 percent of the advanced primary effluent also received secondary treatment. Both plants are master-planned for a future primary and secondary treatment capacity of 235 mgd for a combined total of 470 mgd by the year 2070.

Outflows of treated wastewater from the two plants are combined and discharged to the ocean off the Huntington Beach coast through an outfall pipe that is 120 inches in diameter and approximately five miles long. The last mile of the outfall pipe is a diffuser that dilutes the wastewater with seawater in a ratio of 148 parts seawater to one part treated wastewater at an average depth of 185 feet.

## **ECONOMIC CONDITIONS AND OUTLOOK**

In June 2010, the Anderson Center for Economic Research at Chapman University forecasts that a weak but sustained recovery through 2011 and real gross domestic product (GDP) growth will serve as a positive factor for California and Orange County economies. A low trade-weighted value of the dollar and gradual improvements in the world economy are projected to increase growth in real exports over the remainder of the year, and the gains will gradually accelerate into 2011. The most recent data points to a pickup in California merchandising exports since the first quarter of 2009. The strength in real exports and real GDP will be partially offset by continued weakness in California and Orange County's construction spending. Chapman University reports that residential construction spending hit bottom in 2009 and that their forecast calls for an increase of 18.6 percent and 17.5 percent in the number of single and multiple housing permits in California and Orange County, respectively. However, high vacancy rates, declining lease rates, and prices of commercial real estate, are continuing to push nonresidential construction spending lower. As a result, total construction spending which is generated by projected total residential and nonresidential permit valuation into future quarters is declining through the third quarter of 2011. Although total construction spending is still decreasing, the projected decline in early 2011 compares favorably to a much steeper decline of almost 30 percent over the 2009-10 period.

According to the California Employment Development Department, Orange County experienced a decline in payroll jobs of 110,200 jobs in 2009, and a decline of 173,600, or 11.4 percent in total payroll jobs since the beginning of the national recession in December of 2007. Only the Inland Empire, at 12.9 percent, incurred a larger percentage reduction throughout California. Chapman University forecasts that year-

over-year payroll growth will increase from virtually no growth in the third quarter of 2010 to 1.8 percent by the fourth quarter of 2011. While such growth pales in comparison to historical standards, it points to the creation of 21,000 and 182,000 in net new payroll jobs in Orange County and California, respectively, in 2011.

According to Chapman University, most of the new jobs over the 2010-11 period will be created in the services sector. The most rapid growth is forecasted in the education and health services sector, increasing at 2.6 percent in Orange County and 2.5 percent in California in 2011. Outside of the services sector, the retail and wholesale sectors are forecasted to show recovery in 2011. High unemployment rates, consumer deleveraging and declining nominal income led to a sharp decline in consumer spending. However, with the recession ending, consumers are becoming more secure about their jobs and are spending again. Chapman University's California consumer sentiment index increased to 81.1 in the first quarter of 2010 from a level of 58.2 in the first quarter of 2009. This marked the fourth consecutive quarterly improvement in this index. As a result of improved consumer confidence and spending, Chapman University forecasts that the retail sector should start hiring in mid-2010, and that jobs in this sector will increase by 2.4 percent in Orange County and 1.9 percent in California in 2011. In the goods-producing sector, Chapman forecasts employment growth in the construction sector will remain weak. The weakness in the nonresidential construction activity is more than offset by improvements in the residential sector and pickup in infrastructure spending.

Due to the pickup in job growth, Chapman University is forecasting personal income to increase by 3.7 percent in 2011 that should increase taxable sales spending as taxable sales in Orange County are forecasted to increase from an estimated level of \$50.6 billion in 2010 to 53.7 billion in 2011, an increase of 6.1 percent. This compares to a projected increase of 5.5 percent spending in California. However, the projected increase in the state's general fund revenue will not be sufficient to cover the state's projected spending, as employment in state and local government is projected to remain at current levels with no significant hiring over the 2010-11 period.

With the rapid decline in home prices and low mortgage rates, housing affordability has increased sharply in 2009. According to Chapman University, a homebuyer earning the median family income and buying a median-priced single-family home needed to spend 30.5 percent of income to pay for the interest, principal, and property taxes, substantially lower than the 51.3 percent needed when home prices peaked in 2007. Chapman University projects that the future direction of housing affordability points to lower levels as builders are slowly ramping up construction activity due to the total number of permits for single and multiple housing units forecasted to increase from a low of 2,200 units in 2009, to 2,700 in 2010, and 3,200 units in 2011, placing downward pressure on prices. Also, the supply of unsold housing units declined significantly over the last two years, and further significant declines are not expected over the next two years. With Chapman University's projection of income and job growth and modest increases in the supply of new and resale housing units, median single-family home prices are forecasted to increase annually within a range of 4.0 to 8.0 percent in Orange County over the 2010-11 period.

## **MAJOR INITIATIVES**

### **Moving Towards Full Secondary Treatment Standards**

The Sanitation District's Board of Directors decided in July 2002 to voluntarily give up its modified ocean discharge permit, issued under section 301(h) of the Federal Clean Water Act, which allowed the Sanitation District to discharge a higher level of Suspended Solids and Biochemical Oxygen Demand than otherwise required by the Act if adequate environmental and public health protection was demonstrated.

To obtain a renewal of its ocean discharge permit without the modification (often referred to as a "waiver"), the Sanitation District is undertaking a massive capital improvement program ("CIP") of building new, and rehabilitating existing, facilities in order for the Sanitation District to operate its facilities in a manner that will allow it to achieve secondary treatment standards as defined by the Act.



Construction of the capital improvements necessary to achieving secondary treatment standards will take until December 31, 2012. Permits are issued for a five (5) year duration, and the U.S. Environmental Protection Agency (EPA) has no authority to waive the discharge limits requirements or grant a longer permit (except per Sec. 301(h)). In November 2004, a consent decree was signed by EPA and filed with the U.S. District Court that approved the construction schedule and decrees that no penalties will be imposed for discharges that exceed the secondary treatment limits during the period of construction.

Seven milestones towards achieving secondary treatment standards were identified within the consent decree along with due dates. The District is in compliance with the decree and has successfully completed four of these milestones within the time permitted, as follows:

- On March 15, 2006 – Completion of the new \$44.4 million “Trickling Filter Facility” at Plant No. 1.
- On November 15, 2006 – Completion of the design and advertising for construction of the “New Activated Sludge System” at Plant No. 1.
- On January 15, 2007 – Completion of the design and advertising for construction of “Trickling Filters at Plant No. 2”.
- On March 28, 2008 – Completion of construction for “Rehabilitation of Activated Sludge Plant at Plant No.2.”

Following are the timeline for the remaining three milestones:

- February 15, 2011 – Complete construction of Plant No. 2 secondary treatment expansion.
- November 15, 2012 – Complete construction of Plant No. 1 secondary treatment expansion.
- December 31, 2012 – Achieve full compliance with the Code of Federal Regulations secondary treatment requirements

### **Strategic Planning**

In November 2007, the Board of Directors adopted a new comprehensive strategic plan to drive OCSD's efforts and engage the organization to envision service and operations for the next five years. In continuing to look at the five-year horizon, the Strategic Plan was updated in November 2008 and in December 2009. Each of these strategic plan updates have followed a similar process that had been established when the original November 2007 had been adopted with the General Manager's Office initiated the planning effort with the Executive Management Team, and then soliciting input and ideas from managers and supervisors. In October 2010, the staff-generated ideas were presented to the Board of Directors during a workshop, where Board Members discussed and deliberated changes and additions to the plan.

Driven by our mission, vision and core values, this Strategic Plan, updated for 2010, continues our aggressive efforts to meet the sanitation, health, and safety needs of the more than 2.6 million people we serve while protecting the environment where we live.

In the past year, nearly 69 percent of the goals were completed. For 2010, this Strategic Plan maintains the high standards set in the past plan.

These goals were discussed at the October 20 Board of Directors workshop and include the following:

- Work in conjunction with the County of Orange and the Federal Government to relocate the Santa Ana River Interceptor outside of the Santa Ana Riverbed.

- Develop a more cost effective disinfection program that does not sacrifice public health and is accepted by various stakeholders.
- Develop compliance with new lower co-generation engine emission limits as established by the South Coast Air Quality Management District.
- Develop a strategy to meet climate change regulations on the mitigation of greenhouse gases.
- Develop a sustainable solution to manage the remaining one-third of the District's current biosolids capacity.

This Strategic Plan continues to chart a focused roadmap of success for the future of the Orange County Sanitation District. It addresses critical operations and construction issues, financial and budgeting challenges, and gives clear and concise direction to staff, ratepayers, regulatory agencies, the public, and our Board of Directors.

### **SERVICE EFFORTS AND ACCOMPLISHMENTS**

In February 2010, the Sanitation District received the Collection System of the Year Award (medium size 250-500 miles) from the Santa Ana River Basin Chapter of the California Water Environment Association for 2009.

In February 2010, the Sanitation District received the Engineering Achievement Award for the design and construction of the Steve Anderson Lift Station from the Santa Ana River Basin Chapter of the California Water Environment Association for 2009.

In February 2010, the Sanitation District received the National Association of Clean Water Agencies Excellence in Management Recognition Program for 2010.

In April 2009, the Sanitation District and CDM received the American Council of Engineering Companies 2009 Grand Award for excellence in engineering design for 2009.

In April 2009, the Sanitation District and partner Orange County Water District received the American Society of Civil Engineers Opal Award for Outstanding Engineering Achievement for the Groundwater Replenishment System for 2009.

In July 2010, the Sanitation District received the National Association of Clean Water Agencies Gold Peak Performance Award for reclamation Plant No. 1 and Treatment Plant No. 2 achieving 100 percent compliance with the National Pollutant Discharge Elimination System (NPES) permits for 2009.

In 2010, the Sanitation District received the Santa Ana Watershed Project Authority Innovative Vision Award in recognition of our commitment to protection of the marine environment for 2010.

In 2010, the Sanitation District's Engineering Capital Improvement along with Parsons and CH2M Hill received the National Safety Council Occupational Excellence Achievement Award for 2010.

### **ACCOUNTING AND BUDGETARY CONTROLS**

The Sanitation District's accounting records are maintained on the accrual basis. In developing and evaluating the Sanitation District's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability.

for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management. We believe that the Sanitation District's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Each year the Sanitation District's Board of Directors adopts an annual operating plan. A joint works budget is first prepared that identifies the specific capital projects and operating activities to be undertaken by the Sanitation District during the year. The budgetary level of control, the level at which expenses cannot exceed budget, is exercised at the individual district, or fund level. The Sanitation District has adopted a Uniform Purchasing Policy that identifies the agreed upon purchasing standards.

### **ACCUMULATED FUNDS AND RESERVES POLICY**

The Board of Directors of the Orange County Sanitation District has established the following Accumulated Funds and Reserves Policy:

**Cash Flow Reserve:** will be established to fund operations, maintenance and certificates of participation expenses for the first half of the fiscal year, prior to the receipt of the first installment of the property tax allocation and the sewer service user fees which are collected as a separate line item on the property tax bill. The level of this reserve will be established as the sum of an amount equal to six months operations and maintenance expenses and the total of the annual debt (COP) service payments due in August each year.

**Operating Contingency Reserve:** will be established to provide for non-recurring expenditures that were not anticipated when the annual budget and sewer service fees were considered and adopted. The level of this reserve will be established at an amount equal to ten percent of the annual operating budget.

**Capital Improvement Reserve:** will be maintained to fund annual increments of the capital improvement program. The long-term target is for one half of the capital improvement program to be funded from borrowing and for one half to be funded from current revenues and reserves. With this program in mind, the target level of this reserve has been established at one half of the average annual capital improvement program through the year 2020. Levels higher and lower than the target can be expected while the long-term financing and capital improvement programs are being finalized.

**Catastrophic Loss or Self-Insurance Reserves:** will be maintained for property damage including fire, flood and earthquake; for general liability; and for workers' compensation. These reserves are intended to work with purchased insurance policies, FEMA disaster reimbursements and State disaster reimbursements. Based on the current infrastructure replacement value of \$6.9 billion, the reserve level has been set to fund the District's non-reimbursed costs, estimated to be \$57 million.

**Capital Replacement/Renewal Reserve Policy:** will be maintained to provide thirty percent of the funding to replace or refurbish the current collection and treatment and disposal facilities at the end of their useful economic lives. The current replacement value of these facilities is estimated to be \$3.46 billion for the collection facilities and \$3.44 billion for the treatment and disposal facilities. The initial reserve level was established at \$50 million, which will be augmented by interest earnings and a small portion of the annual sewer user fees in order to meet projected needs through the year 2030.

Provisions of the various Certificate of Participation (COP) issues require debt service reserves to be under the control of the Trustee for that issue. These reserve funds are not available for the general needs of the District and must be maintained at specified levels. The projected level of required COP service reserves at June 30, 2010 is \$128.7 million.

Accumulated funds exceeding the levels specified by District policy will be maintained in a rate stabilization fund. These funds will be applied to future years' needs in order to maintain rates or to moderate annual fluctuations. There is no established target for this reserve.

As of June 30, 2010, the Sanitation District was in compliance with the Accumulated Funds and Reserves Policy with designated net assets totaled \$473 million, and have been earmarked for the following specific purposes in accordance with the Sanitation District's reserve policy:

Designated For Cash Flow Contingency	\$185 million
Designated For Self-Insurance	57 million
Designated For Capital Improvements	142 million
Designated For Debt Service Requirements	129 million
Overlapping Reserve Adjustment	<u>(40) million</u>
Total Designated Net Assets	<u>\$ 473 million</u>

### **CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING**

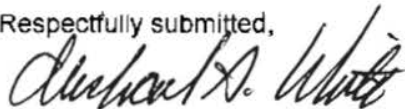
The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Orange County Sanitation District for the Sanitation District's comprehensive annual financial report for the year ended June 30, 2009. This was the sixteenth consecutive year that the Sanitation District has received this award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

### **ACKNOWLEDGMENTS**

This report could not have been accomplished without the dedicated services of the Financial Management Division staff, and I would like to especially express my appreciation to those who assisted in its preparation. I would also like to thank the Sanitation District's Board of Directors, the General Manager, and the Director of Finance and Administrative Services for their interest and support in conducting the financial operations of the Sanitation District in a responsible and progressive manner.

Respectfully submitted,



Michael D. White, CPA  
Controller

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Orange County Sanitation  
District, California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A stylized, handwritten signature in black ink.

President

A handwritten signature in black ink that reads "Jeffrey R. Emmer".

Executive Director

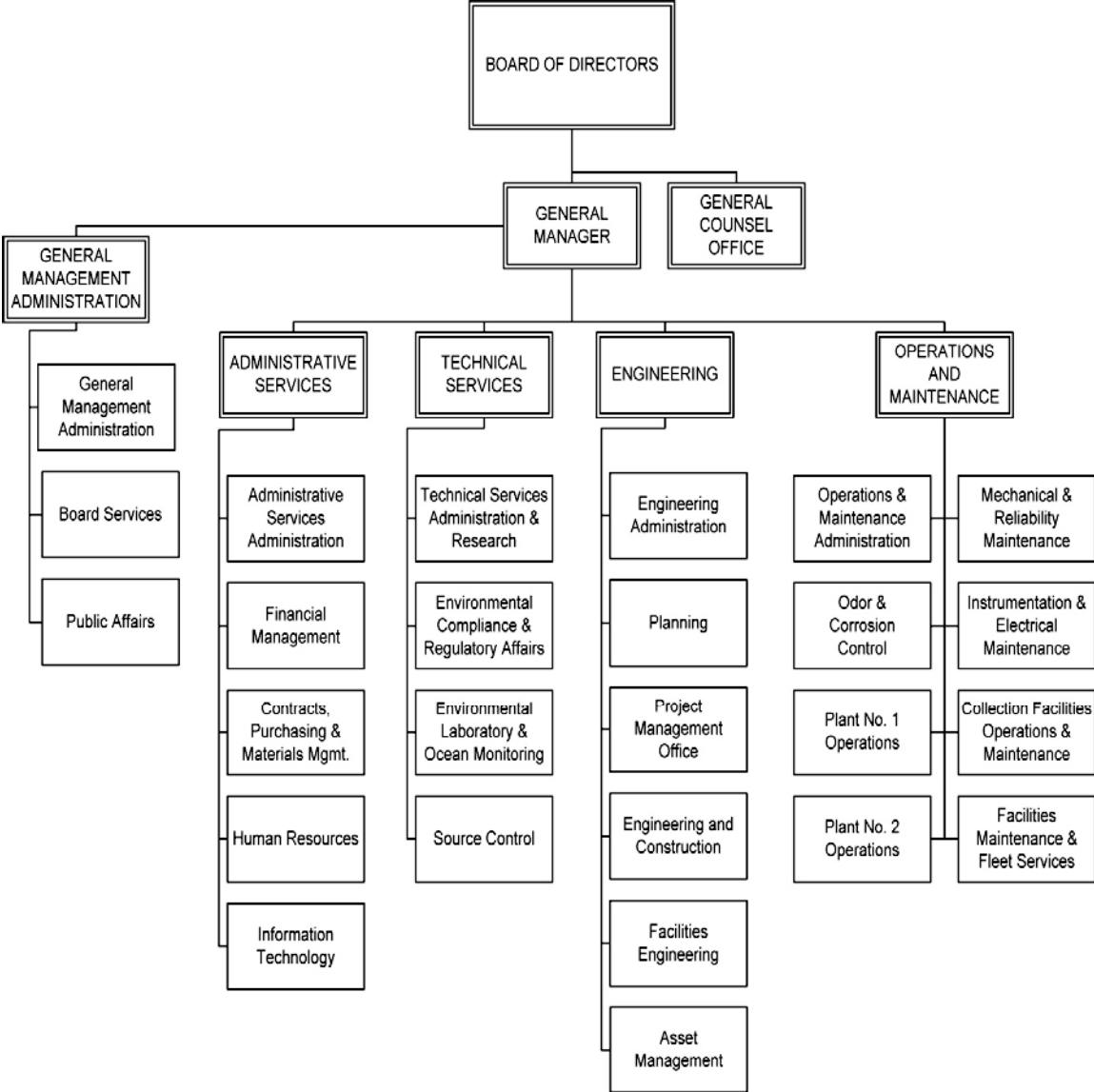
**ORANGE COUNTY SANITATION DISTRICT**

Board of Directors  
As of June 30, 2010

<u>AGENCY</u>	<u>ACTIVE DIRECTOR</u>	<u>ALTERNATE DIRECTOR</u>
Cities:		
Anaheim	Harry Sidhu	Lucille Kring
Brea	Roy Moore	Ron Garcia
Buena Park	Patsy Marshall	Fred Smith
Cypress	Phil Luebben	Prakash Narain
Fountain Valley	Larry Crandall	Steve Nagel
Fullerton	Sharon Quirk-Silva	Pam Keller
Garden Grove	Bill Dalton	Andrew Do
Huntington Beach	Cathy Green	Jill Hardy
Irvine	Christina Shea	Steven Choi
La Habra	Tom Beamish	Rose Espinoza
La Palma	Mark Waldman	Henry Charoen
Los Alamitos	Troy Edgar	Ken Stephens
Newport Beach	Don Webb	Nancy Gardner
Orange	Jon Dumitru	Denis Bilodeau
Placentia	Constance Underhill	Scott Nelson
Santa Ana	Sal Tinajero	David Benavides
Seal Beach	Charles Antos	Gordon Shanks
Stanton	David Shawver	Carol Warren
Tustin	Doug Davert	John Nielson
Villa Park	Brad Reese	Bill MacAloney
Yorba Linda	John Anderson	Jim Winder
Sanitary/Water Districts:		
Costa Mesa Sanitary District	James M. Ferryman	Robert Ooten
Midway City Sanitary District	Joy L. Neugebauer	Allan P. Krippner
Irvine Ranch Water District	John Withers	Douglas Reinhart
County Areas:		
Member of the Board of Supervisors	Janet Nguyen	Vacant

**ORANGE COUNTY SANITATION DISTRICT**

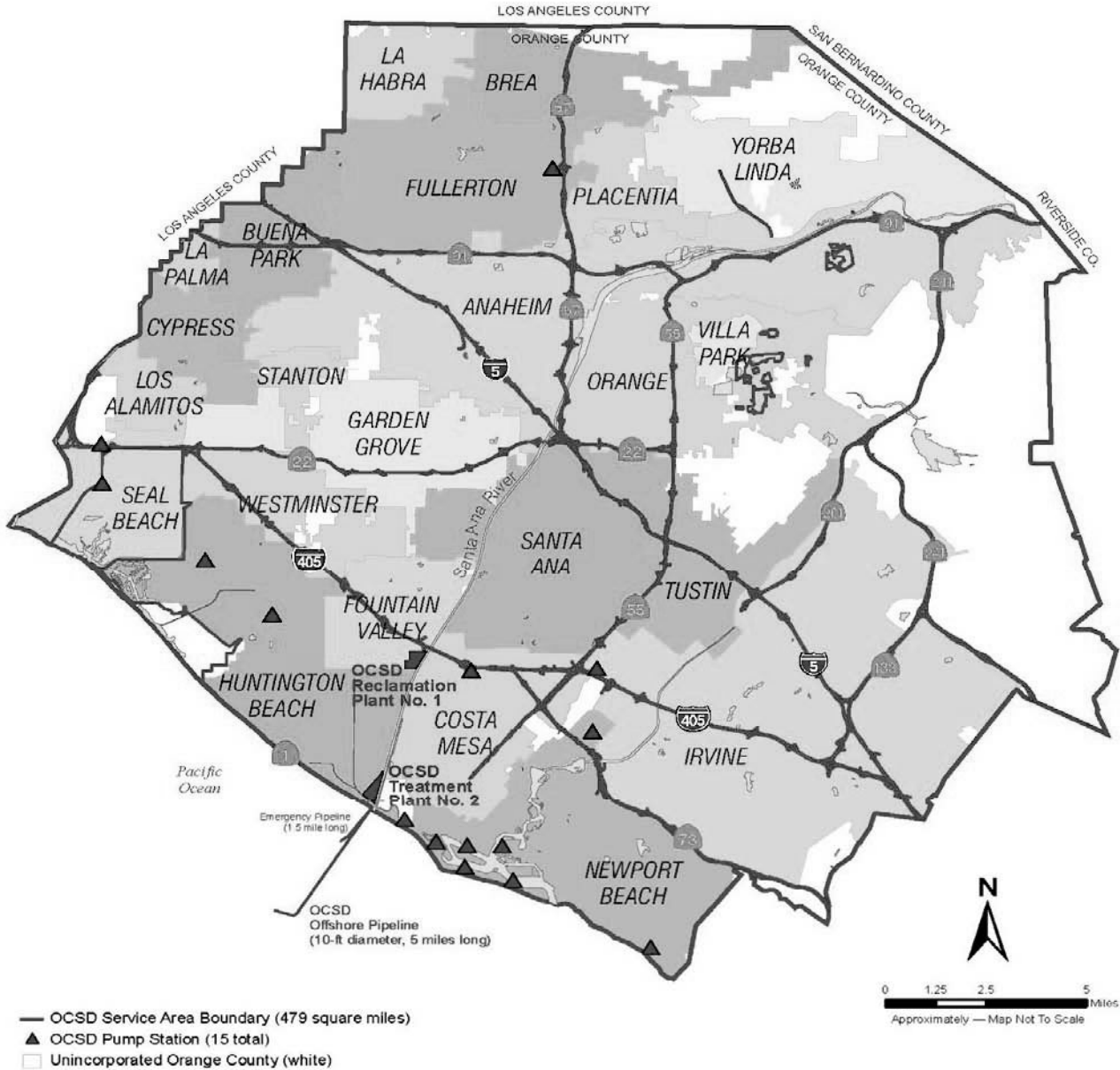
Organizational Chart  
As of June 30, 2010



# ORANGE COUNTY SANITATION DISTRICT

Map of Service Area

As of June 30, 2010



**DISCLAIMER:**  
 Map prepared by Orange County Sanitation District. This map is intended for graphical representation only. No level of accuracy is claimed for the base mapping shown hereon and graphics should not be used to obtain coordinate values, bearings or distances. Portions of this derived product contain geographical information copyrighted by Thomas Brothers. All Rights Reserved.

SOURCE: OCSD GIS Data, Thomas Brothers 2008  
 REVISED: 07/2009



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An Independent CPA Firm

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949-263-5520 fx  
www.mhm-pc.com

Board of Directors  
Orange County Sanitation District  
Fountain Valley, California

## **INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying basic financial statements of Orange County Sanitation District ("District"), as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year partial comparative information has been derived from the basic financial statements of the District for the year ended June 30, 2009 and, in our report dated October 22, 2009, we expressed an unqualified opinion on those basic financial statements

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2010, and the changes in financial position and cash flows of the District for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section, supplementary information, statistical tables and other data and trends are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, statistical tables and other data and trends have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Board of Directors  
Orange County Sanitation District

In accordance with *Government Auditing Standards*, we have also issued a report dated October 20, 2010 on our consideration of the Orange County Sanitation District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Mayor Hoffman McCann P.C.*

Irvine, California  
October 20, 2010

## **Management Discussion and Analysis June 30, 2010**

This section of the financial statements of the Orange County Sanitation District (Sanitation District) is management's narrative overview and analysis of the financial activities of the Sanitation District for the fiscal year ended June 30, 2010. The information presented here is to be considered in conjunction with additional information provided within the letter of transmittal located in the Introductory Section of this report.

### **Financial Highlights**

- As of June 30, 2010, the assets of the Sanitation District exceeded its liabilities by \$1,431.1 million (net assets). Of this amount, \$310.0 million (unrestricted net assets) may be used to meet the Sanitation District's ongoing obligations to citizens and creditors.
- The Sanitation District's total net assets increased \$82.8 million, or 6.1 percent over the prior year.
- Net Capital Assets, consisting of non-depreciable capital assets and depreciable capital assets net of accumulated depreciation, increased \$200.1 million, or 9.5 percent over the prior year.
- Net Assets invested in capital assets, net of related debt increased \$172.2 million, or 18.1 percent.
- Unrestricted Net Assets decreased \$89.4 million, or 22.4 percent from the prior year.

### **Overview of the Basic Financial Statements**

The Sanitation District operates as a utility enterprise and presents its financial statements using the economic resources measurement focus and the full accrual basis of accounting. As an enterprise fund, the Sanitation District's basic financial statements are comprised of two components: financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, the Sanitation District's financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. The statement of net assets includes all of the Sanitation District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Sanitation District creditors (liabilities). It also provides the basis for computing the rate of return, evaluating the capital structure of the Sanitation District, and assessing the liquidity and financial flexibility of the Sanitation District.

The statement of revenues, expenses, and changes in net assets accounts for the current year's revenues and expenses. This statement measures the success of the Sanitation District's operations over the past year and can be used to determine the Sanitation District's creditworthiness. It also highlights the Sanitation District's dependency on property tax revenues in supplementing user fees and other charges for recovering total costs.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations and investments during the reporting period.

### **Net Assets**

As previously stated, net assets increased \$82.8 million, or 6.1 percent to \$1,431.1 million in FY 2009-10 over the prior year. In comparison, net assets increased \$72.3 million, or 5.7 percent, to \$1,348.3 million in FY 2008-09 over FY 2007-08.

(Dollars in thousands)

	June 30, 2010	June 30, 2009	Increase (Decrease)	Percentage Increase (Decrease)
<b>Assets</b>				
Current and other assets	\$ 533,107	\$ 599,489	\$ (66,382)	-11.1%
Capital assets, net	2,300,819	2,100,697	200,122	9.5%
<b>Total assets</b>	<b>2,833,926</b>	<b>2,700,186</b>	<b>133,740</b>	<b>5.0%</b>
<b>Liabilities</b>				
Current liabilities	290,810	294,397	(3,587)	-1.2%
Noncurrent liabilities	1,112,044	1,057,468	54,576	5.2%
<b>Total liabilities</b>	<b>1,402,854</b>	<b>1,351,865</b>	<b>50,989</b>	<b>3.8%</b>
<b>Net assets:</b>				
Investment in capital assets, net of related debt	1,121,057	948,869	172,188	18.1%
Unrestricted	310,015	399,452	(89,437)	-22.4%
<b>Total net assets</b>	<b>\$ 1,431,072</b>	<b>\$ 1,348,321</b>	<b>\$ 82,751</b>	<b>6.1%</b>

Current and other assets decreased \$66.4 million, or 11.1 percent, due primarily to the funding of \$251.1 million in capital improvements and the return of \$12.7 million in capital contributions to the Irvine Ranch Water District offset by net cash provided by operations of \$91.4 million, net non-operating revenues of \$49.6 million, receipt of net certificate of participation (COP) debt proceeds of \$47.6 million, and receipt of capital facilities capacity charges of \$10.3 million.

Capital assets, net increased \$200.1 million, or 9.5 percent, due mostly to the ongoing capital improvement program capital additions of \$252.9 million in FY 2009-10 less depreciation of \$52.0 million. Included in total capital outlays was the "New Secondary Treatment System at Plant No. 1. This project is one of several capital improvements that are necessary to achieve secondary treatment standards by December 31, 2012 in accordance with a consent decree signed by EPA and filed with the U.S. District Court. This project includes construction of aeration basins, clarifiers, a blower building, and waste sludge pumping stations, that will provide additional secondary treatment capacity of 60 million gallons per day (MGD) at Plant No. 1. Capital outlays of \$65.5 million were incurred in FY 2009-10 with total project outlays to date of \$220.7 million. The total projected cost is \$260.3 million with completion expected in FY 2011-12.

Another secondary treatment project underway is the construction of Trickling Filters at Plant No. 2. This project includes the construction of three trickling filters, a solids contact basin, and six clarifiers for additional secondary treatment capacity of 60 MGD at Plant No. 2. Capital outlays of \$68.3 million were incurred in FY 2009-10 with total project outlays to date of \$201.0 million. The total projected cost is \$223.2 million with completion expected in FY 2012-13.

The completion of the Headworks Improvements at Plant No. 2 was another project with significant outlays in FY 2009-10. This project is replacing the existing headworks due to failing gates and the ineffectiveness of the bar screens and grit chambers that are allowing grit screenings to pass through into the downstream processes causing increased operating costs. This project includes an influent diversion and metering structure, bar screens, influent pump station, vortex grit chambers, primary influent splitter and metering structure, ferric chloride feed facilities, headworks and trunk line odor control facilities, screenings handling building including a washer/compactor, grit handling building, and an electrical building that includes standby power. In FY 2009-10, \$8.7 million of the estimated \$257.7 million was incurred bringing the total outlay to \$229.3 million with completion expected in FY 2012-13.

See page 7 for the Schedule of Capital Assets and a listing of the other major capital additions for FY 2009-10.

*Net assets invested in capital assets, net of related debt* increased \$172.2 million, or 18.1 percent over the prior year primarily as a result of the \$200.1 million increase in net capital assets offset by an increase of \$27.9 million in net related debt.

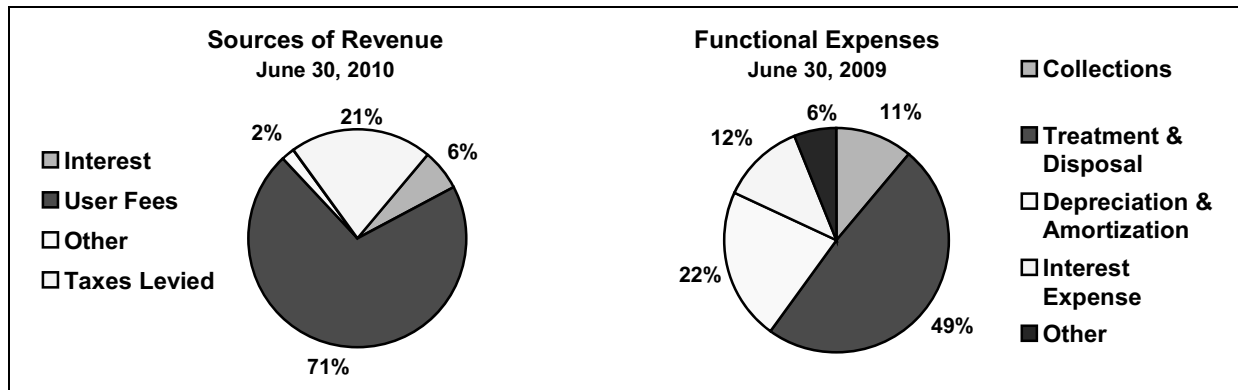
*Unrestricted net assets* decreased \$89.4 million, or 22.4 percent over the prior year, and is primarily due to the overall increase in net assets of \$82.8 offset by the increase in investment in capital assets net of related debt of \$172.2 million.

### Changes in Net Assets

Net assets increased \$82.8 million in FY 2009-10, a 6.1 percent increase over the prior year.

*(Dollars in thousands)*

	June 30, 2010	June 30, 2009	Increase (Decrease)	Percentage Increase (Decrease)
<b>Revenues:</b>				
Operating revenues				
Service Charges	\$ 225,059	\$ 206,422	\$ 18,637	9.0%
Permit and inspection fees	629	895	(266)	-29.7%
Total operating revenues	<u>225,688</u>	<u>207,317</u>	<u>18,371</u>	<u>8.9%</u>
Non-operating revenues				
Property taxes	64,759	66,427	(1,668)	-2.5%
Investment and interest income	19,166	14,835	4,331	29.2%
Emission Reduction Credit Sales	4,530	531	3,999	753.1%
Other	2,409	1,103	1,306	118.4%
Total non-operating revenues	<u>90,864</u>	<u>82,896</u>	<u>7,968</u>	<u>9.6%</u>
<b>Total revenues</b>	<b><u>316,552</u></b>	<b><u>290,213</u></b>	<b><u>26,339</u></b>	<b><u>9.1%</u></b>
<b>Expenses:</b>				
Operating expense other than depreciation and amortization	138,085	164,556	(26,471)	-16.1%
Depreciation and amortization	52,036	32,520	19,516	60.0%
Non-operating expense	41,272	38,741	2,531	6.5%
<b>Total expenses</b>	<b><u>231,393</u></b>	<b><u>235,817</u></b>	<b><u>(4,424)</u></b>	<b><u>-1.9%</u></b>
<b>Income before capital contributions</b>	<b>85,159</b>	<b>54,396</b>	<b>30,763</b>	<b>56.6%</b>
<b>Capital facilities capacity charges</b>	<b>10,332</b>	<b>9,834</b>	<b>498</b>	<b>5.1%</b>
<b>Capital contributions (distributions), net</b>	<b><u>(12,739)</u></b>	<b><u>8,104</u></b>	<b><u>(20,843)</u></b>	<b><u>-257.2%</u></b>
<b>Increase in net assets</b>	<b>82,752</b>	<b>72,334</b>	<b>10,418</b>	<b>14.4%</b>
Beginning net assets	1,348,321	1,275,987	72,334	5.7%
<b>Ending net assets</b>	<b><u>\$ 1,431,073</u></b>	<b><u>\$ 1,348,321</u></b>	<b><u>\$ 82,752</u></b>	<b><u>6.1%</u></b>



As previously stated, an enterprise fund is used to account for the operations of the Sanitation District, which is financed and operated in a manner similar to private business enterprises. This allows the Sanitation District to determine that the costs (expenses, including depreciation and amortization) of providing wastewater management services on a continuing basis are financed or recovered primarily through user charges.

Sewer service user fees are evaluated annually based primarily on budget requirements for total operation, maintenance and capital expenditures for providing wastewater management services. Property tax revenues are dedicated for the payment of debt service.

In FY 2009-10, operating revenues increased \$18.4 million, or 8.9 percent over the prior year that is predominately reflective of the \$18.6 million, or 9.0 percent increase in service charges. The increase in service charges is primarily due to the 9.9 percent increase in the average sewer user fee rate over the prior year.

The \$8.0 million, or 9.6 percent increase in non-operating revenues consists of a \$4.3 million, or 29.2 percent increase in investment and interest income, a 4.0 million, or 753.1 percent increase in the one-time sale of excess emission reduction credits, and a \$1.3 million, or 118.4 percent increase in other non-operating revenues. These increases are partially offset by a \$1.7 million, or 2.5 percent decrease in property tax revenues. The increase in investment and interest income is attributable to the higher yields earned on investments somewhat offset by the lower cash and investment balances. Yields earned on investments increased from 2.9 percent in FY 2008-09 to 3.9 percent in FY 2009-10 and cash balances decreased during this same time period from \$534 million to \$473 million. The increase in other non-operating revenues is mostly reflective of the \$1.4 million awarded from federal grants. The decline in property tax revenue is primarily the result of the decrease in total assessed valuation of 0.8 percent over the prior year.

Operating expense before depreciation and amortization decreased \$26.5 million, or 16.1 percent over the prior year. Of this decrease, a one-time other operating expense of \$29.0 million was charged to the Consolidated Revenue Area in the prior year as a result of the independent agreed-upon procedures conducted on Revenue Area 14 to substantiate Irvine Ranch Water District's (IRWD) owner equity interest in OCSD and to determine the cash reserve contribution required from IRWD in accordance with the November 15, 1995 agreement.

Operating salaries and benefits totaling \$69.7 million increased \$2.2 million, or 3.2 percent over the prior year. The operating salaries and benefits costs are part of the overall increase of \$3.4 million in total salaries and benefits when including the salaries and benefits capitalized within the capital improvement program. Overall, total Sanitation District salaries and benefits were \$91.8 million, a 3.9 percent increase over the prior year total of \$84.6 million. This increase is mostly attributable to the \$2.1 million increase in regular salaries, or 3.4 percent, that was primarily driven by existing bargaining agreements as total

authorized staffing levels have remained at the FY 2008-09 levels of 641 full time equivalents. There was also an increase in retirement premiums of \$0.9 million.

Ferric chloride, a chemical coagulant used in the treatment process, increased \$1.3 million, or 24.5 percent due to the unit price increase experienced over the prior year.

Somewhat offsetting the increased cost in personnel services and chemical supplies was the decrease of \$3.5 million, or 12.0 percent in contractual services over the prior year. This reduction was primarily due to the \$1.1 million decrease in other waste disposal. As a result of the Nitrification Study conducted at the Plant No. 1 activated sludge facility, there was no waste sludge generated that required removal. There were also reductions in one-time environmental scientific consulting services, environmental monitoring, temporary services, solids removal, and other professional services of \$691,000, \$387,000, \$253,000, \$206,000, and \$222,000, respectively.

Capital facilities capacity charges increased to \$10.3 million, a \$0.5 million or 5.1 percent. This increase is reflective of the increase in total construction values in FY 2009-10 of 5.9 percent over the prior year.

A capital distribution back to IRWD is being recognized in FY 2009-10 totaling \$12.7 million due to IRWD's decreased equity share of OCSD treatment facilities in the amount of \$23.6 million as the result of decreased sewage flows from IRWD. This capital distribution back to IRWD is reduced by the \$10.8 million of certain capital improvements made by OCSD in FY 2009-10 benefiting IRWD.

### Capital Assets

At June 30, 2010, the Sanitation District had a net investment of \$2.301 billion in capital assets. This amount represents a net increase (including additions and deletions) of \$200.1 million, or 9.5 percent over the prior year.

*(Dollars in thousands)*

	June 30, 2010	June 30, 2009	Increase (Decrease)	Percentage Increase (Decrease)
Land	\$ 13,021	\$ 13,021	\$ -	0.0%
Construction in Progress	1,448,353	1,478,567	(30,214)	-2.0%
Sewage collection facilities	348,024	279,457	68,567	24.5%
Sewage treatment facilities	361,446	237,900	123,546	51.9%
Effluent disposal facilities	45,795	47,689	(1,894)	-4.0%
Solids disposal facilities	365	375	(10)	-2.7%
General and administrative facilities	79,621	38,835	40,786	105.0%
Assets acquired in excess of book value	4,193	4,852	(659)	-13.6%
<b>Capital assets, net</b>	<b>\$ 2,300,818</b>	<b>\$ 2,100,696</b>	<b>\$ 200,122</b>	<b>9.5%</b>

Major capital asset additions for the current fiscal year included the following:

- \$68.3 million – New Trickling Filters at Plant No. 2
- \$65.5 million – New Secondary Treatment Systems at Plant No. 1
- \$10.3 million – Bitter Point Force Main Rehabilitation
- \$10.0 million – Central Generation Automation
- \$ 8.7 million – Headworks Replacement at Plant No. 2
- \$ 8.3 million – Bitter Point Pump Station
- \$ 8.2 million – Primary Treatment Rehabilitation at Plant No. 2
- \$ 6.4 million – Westside Pump Station Rehabilitation



More detailed information about the Sanitation District's capital assets is provided in Notes 1 and 3 of Notes to the Financial Statements.

### **Debt Administration**

At June 30, 2010, the Sanitation District had \$1.3 billion outstanding in COP debt, a net increase of \$45.7 million, or 3.7 percent over the prior year. This increase is primarily due to the \$80.0 million of new fixed rate debt, Series 2010A Wastewater Revenue Obligations, issued in May 2010 to assist in the \$252.9 million in capital outlays that had taken place during the year and to assist in the \$180.1 million scheduled to be spent in the FY 2010-11. In addition, Revenue Refunding Certificate Anticipation Notes, Series 2009B Certificates of Anticipation Notes fixed rate debt was issued in the amount of \$176.1 million in December 2009 to refund the \$196.6 million outstanding principal balance of the COP Series 2006 variable rate debt.

The Sanitation District achieved a rating of AAA from Standard and Poor's Corporation and from Fitch Ratings. The Sanitation District's long-range financing plan is designed to maintain this high rating. Over the next ten years, the Sanitation District is projecting an additional \$1.9 billion in future treatment plant and collection system capital improvements. In accordance with the Sanitation District's long-term debt fiscal policy, the Sanitation District will restrict long-term borrowing to capital improvements that cannot be financed from current revenue.

In the winter of 2010, the Sanitation District is scheduled to issue \$157 million of new COP fixed rate debt. A total of \$447 million in COP debt issuance is being proposed over the next five years. These financings are needed early in the 10-year capital improvement program because the bulk of the construction is scheduled during the same time period.

For more information on long-term debt activities, see Note 4 of the Notes to Basic Financial Statements.

### **Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate within the County of Orange is currently 9.5 percent, which is an increase from a rate of 9.3 percent a year ago.
- Inflation for Orange County in 2009 increased 0.8 percent based on the 2009 actual percentage change in the consumer price index according to the June 2010 Economic and Business Review report prepared by Chapman University.
- The actual rate of return on investments increased from the 2.9 percent earnings rate in FY 2008-09 to 3.9 percent for FY 2009-10.

All of these factors were considered in preparing the Sanitation District's two-year budget for FY 2010-11 and FY 2011-12.

The Sanitation District's user fee schedule was increased by 10.4 percent for FY 2010-11 over the prior year. The annual fee applicable to the Sanitation District's largest customer base and the underlying basis for all other user rates: the single-family residential fee, increased by \$23.00, from \$221.00 to \$244.00. This rate increase was necessary to finance the Sanitation District's cash flow needs as capital improvement outlays alone are projected to be \$180.1 million in FY 2010-11 and are projected to total \$1.9 billion over the next 10 years in order to rehabilitate and upgrade existing facilities and provide for full secondary treatment standards.

### **Requests for Information**

The financial report is designed to provide a general overview of the Sanitation District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Financial Management Division, Orange County Sanitation District, P.O. Box 8127, Fountain Valley, CA 92728-8127.

**ORANGE COUNTY SANITATION DISTRICT  
BASIC FINANCIAL STATEMENTS**

## ORANGE COUNTY SANITATION DISTRICT

### Statement of Net Assets

June 30, 2010

(With Comparative Data for June 30, 2009)

	2010	2009
<b>Current assets:</b>		
Cash and cash equivalents	\$ 49,537,559	\$ 39,199,955
Investments	310,335,760	399,761,799
Accounts receivable, net of allowance for uncollectibles	13,069,682	11,864,637
Accrued interest receivable	1,108,027	2,157,015
Connection fees receivable	996,430	388,031
Property tax receivable	2,040,072	3,221,629
Inventories	5,402,069	5,196,457
Prepaid expenses	1,134,886	589,228
Prepaid retirement	14,578,000	12,605,000
Total current assets	398,202,485	474,983,751
<b>Noncurrent assets:</b>		
Restricted:		
Cash and cash equivalents	86,629,639	68,551,793
Investments	26,829,427	26,829,427
Accrued interest receivable	210,730	215,140
Unrestricted:		
Non-depreciable capital assets	1,461,374,037	1,213,152,503
Depreciable capital assets, net of accumulated depreciation	839,444,526	887,544,338
Deferred charges	9,733,908	9,433,482
Other noncurrent assets, net	11,501,640	19,475,424
Total noncurrent assets	2,435,723,907	2,225,202,107
Total assets	2,833,926,392	2,700,185,858
<b>Current liabilities:</b>		
Accounts payable	20,091,995	30,456,796
Accrued expenses	7,259,202	8,350,733
Retentions payable	1,587,986	1,065,892
Interest payable	19,643,344	16,646,631
Due to other governmental agency	42,053,445	30,999,633
Current portion of long-term obligations	200,173,675	206,877,712
Total current liabilities	290,809,647	294,397,397
<b>Noncurrent liabilities:</b>		
Noncurrent portion of long-term obligations	1,112,044,076	1,057,467,549
Total liabilities	1,402,853,723	1,351,864,946
<b>Net assets:</b>		
Invested in capital assets, net of related debt		
Collection system	459,503,200	423,243,200
Treatment and disposal -Land	4,475,751	4,475,751
Treatment and disposal system	1,836,839,612	1,672,977,890
Capital assets related debt	(1,179,761,456)	(1,151,827,717)
Unrestricted	310,015,562	399,451,788
Total net assets	\$ 1,431,072,669	\$ 1,348,320,912

See Accompanying Notes to Basic Financial Statements.

**ORANGE COUNTY SANITATION DISTRICT**  
Statement of Revenues, Expenses, and Changes in Net Assets  
For the Year Ended June 30, 2010  
(With Comparative Data for the Year Ended June 30, 2009)

	2010	2009
Operating revenues:		
Service charges	\$ 225,058,521	\$ 206,422,467
Permit and inspection fees	629,082	894,578
Total operating revenues	225,687,603	207,317,045
Operating expenses other than depreciation and amortization:		
Salaries and benefits	69,651,904	67,497,961
Utilities	6,934,045	7,242,049
Supplies, repairs and maintenance	26,549,945	26,723,524
Contractual services	25,476,063	28,951,469
Directors' fees	141,313	154,870
Meetings and training	894,865	1,034,548
Other	8,436,969	32,952,065
Total operating expenses other than depreciation and amortization	138,085,104	164,556,486
Operating income before depreciation and amortization	87,602,499	42,760,559
Depreciation and amortization	52,035,796	32,520,010
Operating income	35,566,703	10,240,549
Non-operating revenues:		
Property taxes	64,759,095	66,426,931
Investment and interest income	19,165,691	14,835,561
Emission Reduction Credit Sales	4,530,000	530,750
Other	2,409,455	1,103,485
Total non-operating revenues	90,864,241	82,896,727
Non-operating expenses:		
Interest	27,536,714	24,899,193
Feasibility studies	10,349,999	13,652,434
Capital grants to member agencies	1,481,590	189,830
Other	1,904,239	-
Total non-operating expenses	41,272,542	38,741,457
Income before capital contributions	85,158,402	54,395,819
Capital Contributions:		
Capital facilities capacity charges	10,332,569	9,834,369
Capital contributions received from (returned to) other agency	(12,739,214)	8,103,438
Change in net assets	82,751,757	72,333,626
Total net assets - beginning	1,348,320,912	1,275,987,286
Total net assets - ending	\$ 1,431,072,669	\$ 1,348,320,912

See Accompanying Notes to Basic Financial Statements.

**ORANGE COUNTY SANITATION DISTRICT**  
Statement of Cash Flows  
For the Year Ended June 30, 2010  
(With Comparative Data for the Year Ended June 30, 2009)

	2010	2009
Cash flows from operating activities:		
Receipts from customers and users	\$ 242,671,806	\$ 244,803,212
Payments to employees	(70,296,045)	(65,495,757)
Payments to suppliers	(80,970,787)	(115,054,877)
Net cash provided by operations	91,404,974	64,252,578
Cash flows from noncapital financing activities:		
Proceeds from property taxes	65,940,652	66,501,391
Capital grants to member agencies	(1,481,590)	(189,830)
Net cash provided by noncapital financing activities	64,459,062	66,311,561
Cash flows from capital and related financing activities:		
Capital facilities capacity charges	9,724,170	10,733,265
Additions to property, plant and equipment	(251,119,750)	(290,787,719)
Interest paid	(43,055,105)	(36,301,490)
Principal payments on certificates of participation	(200,145,000)	(244,805,000)
Proceeds from certificates of participation issuance	247,740,402	408,636,386
Certificates of participation issuance costs	(554,219)	(775,121)
Proceeds from capital contributions	-	8,103,438
Net cash provided (used) by capital and related financing activities	(237,409,502)	(145,196,241)
Cash flows from investing activities:		
Proceeds from the sale of investments	3,572,349,413	4,298,378,906
Purchases of investments	(3,476,745,940)	(4,347,133,227)
Interest received	14,357,443	16,388,243
Net cash provided (used) by investing activities	109,960,916	(32,366,078)
Net increase (decrease) in cash and cash equivalents	28,415,450	(46,998,180)
Cash and cash equivalents, beginning of year	107,751,748	154,749,928
Cash and cash equivalents, end of year	\$ 136,167,198	\$ 107,751,748
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 35,566,703	\$ 10,240,549
Adjustments to reconcile operating income to net cash provided by operations:		
Depreciation and amortization	52,035,796	32,520,010
Bad debt expense	(195,981)	26,606
Other non-operating revenues and expenses	6,895,719	1,225,332
(Increase)/decrease in operating assets:		
Accounts receivable	(1,009,064)	25,993
Due from other governmental agencies	-	4,913,701
Inventories	(1,354,431)	(191,636)
Prepaid and other assets	(2,518,658)	(12,379,924)
Increase/(decrease) in operating liabilities:		
Accounts payable	(10,364,801)	2,879,030
Accrued expenses	(1,091,531)	(543,575)
Retentions payable	522,094	(6,720,864)
Due to other governmental agency	11,053,812	30,999,633
Pension/OPEB payable	755,295	771,789
Compensated absences	846,045	650,971
Other payable	308,546	323,801
Claims and judgments	(44,570)	(488,838)
Net cash provided by operations	\$ 91,404,974	\$ 64,252,578
<u>Noncash Activities:</u>		
Unrealized gain (loss) on the fair value of investments	\$ 6,177,434	\$ (153,923)
Capital contributions from other agency	(12,739,214)	2,456,540

See Accompanying Notes to Basic Financial Statements.

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

### (1) Summary of Significant Accounting Policies

#### Reporting Entity

The Orange County Sanitation District (OCSD) is a public agency which owns and operates certain wastewater facilities in order to provide regional wastewater collection, treatment, and disposal services to approximately 2.6 million people in the northern and central portion of the County of Orange, California. OCSD is managed by an administrative organization comprised of directors appointed by the agencies and cities which are serviced by OCSD.

OCSD's service area was originally formed in 1954 pursuant to the County Sanitation District Act and consisted of seven independent special districts. Two additional districts were formed and additional service areas were added in 1985 and 1986. These special districts were jointly responsible for the treatment and disposal facilities which they each used. In April of 1998, the Board of Supervisors of Orange County passed Resolution 98-140 approving the consolidation of the existing nine special districts into a new, single sanitation district. This action was taken in order to simplify the governance structures, reduce the size of OCSD's Board of Directors, ease administrative processes, streamline decision-making and consolidate accounting and auditing processes. Pursuant to the Resolution and Government Code Section 57500, the predecessor special districts transferred and assigned all of their powers, rights, duties, obligations, functions and properties to OCSD, including all assets, liabilities, and equity.

Effective July 1, 1998, the organization became known as the Orange County Sanitation District. The boundaries of one of the previous districts, now known as Revenue Area No. 14, have been maintained separately because their use of OCSD's collection, treatment, and disposal system is funded by the Irvine Ranch Water District. The boundaries of the other eight districts have been consolidated and are collectively referred to as the Consolidated Revenue Area. OCSD utilizes joint operating and capital outlay accounts to pay joint treatment, disposal, and construction costs. These joint costs are allocated to each revenue area based on gallons of sewage flow. The supplemental schedules and statements show internal segregations and are not intended to represent separate funds for presentation as major or non-major funds in the basic financial statements.

The accompanying financial statements present OCSD and its blended component unit, the Orange County Sanitation District Financing Corporation. The Corporation is a legally separate entity although in substance it is considered to be part of OCSD's operations. OCSD is considered to be financially accountable for the Corporation which is governed by a board comprised entirely of OCSD's board members. There is no requirement for separate financial statements of the Corporation; consequently, separate financial statements for the Corporation are not prepared. The Corporation had no financial activity during the fiscal year ended June 30, 2010, other than principal and interest payments on outstanding certificates of participation (see Note 4).

OCSD is independent of and overlaps other formal political jurisdictions. There are many governmental entities, including the County of Orange, that operate within OCSD's jurisdiction; however, financial information for these entities is not included in the accompanying financial statements in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement 14.

#### Measurement Focus and Basis of Accounting

OCSD operates as an enterprise activity. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the Board of Directors is that the costs (expenses, including depreciation and amortization) of providing services

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. OCSD applies all GASB pronouncements currently in effect as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principal Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

### Operating Plans

Each year, OCSD staff prepares an annual operating plan which is adopted by the Board of Directors. The annual operating plan is used to serve as a basis for monitoring financial progress, estimating the levy and collection of taxes, and determining future service charge rates. During the year, these plans may be amended as circumstances or levels of operation dictate.

### Cash Equivalents

Investments with original maturities of three months or less are considered to be cash equivalents.

### Investments

All investments are stated at fair value (the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale). Changes in fair value that occur during the fiscal year are reported as part of investment and interest income. Investment and interest income includes interest earnings and realized and unrealized changes in fair value.

### Accounts Receivable

Accounts receivable is shown net of the allowance for uncollectible receivables which was \$20,016 at June 30, 2010. Any unbilled sewer service receivables are recorded at year-end.

### Inventory

Inventory is stated at cost, which approximates market, on a weighted-average basis.

### Capital Assets

Outlays for property, plant, equipment, and construction in progress are recorded in the revenue area which will use the asset. Such outlays may be for individual revenue area assets or for a revenue area's share of joint assets.

Capital assets of property, plant, and equipment are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of at least three years. Such assets are recorded at cost, except for assets acquired by contribution, which are recorded at fair market value at the time received. Cost includes labor; materials; outside services; vehicle and equipment usage; allocated indirect charges such as engineering, purchasing, supervision and other fringe benefits; and certain administrative and general expenses. Net interest costs are capitalized on projects. During the fiscal year ended June 30, 2010, net interest costs of \$16.86 million were capitalized.

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

Depreciation of plant and equipment is provided for over the estimated useful lives of the assets using the straight-line method. OCSD generally follows the guidelines of estimated useful lives as recommended in the State of California Controller's Uniform System of Accounts for Waste Disposal Districts, which range from 3 to 75 years. The following are estimated useful lives for major classes of depreciable assets: Sewage collection facilities – 50 years, Sewage treatment facilities – 40 years, Sewage disposal facilities – 40 years, and General plant and administrative facilities – 11.5 years.

### Amortization

Amortization of the excess purchase price over the book value of assets acquired is provided using the straight-line method over an estimated useful life of 30 years.

Discounts and deferred charges on the certificates of participation are amortized to interest expense over the respective terms of the installment obligations based on their effective interest rates (note 4).

### Restricted Assets

Certain assets are classified as restricted because their use is limited by applicable debt covenants. Specifically, the assets are restricted for installment payments due on certificates of participation or are maintained by a trustee as a reserve requirement for the certificates of participation. When both restricted and unrestricted resources are available for use, it is OCSD's policy to use restricted resources first, then unrestricted resources as they are needed.

### Compensated Absences

OCSD's employees, other than operations and maintenance personnel, are granted vacation and sick leave in varying amounts with maximum accumulations of 200 hours and 560 hours for vacation and sick days earned but unused, respectively. Operations and maintenance personnel accrue between 80 and 250 personal leave hours per year depending on years of service. Personal leave can be accumulated up to a maximum of 440 hours.

Vacation and sick leave benefits and personal days are recorded as an expense and liability when earned by eligible employees. In determining the estimated sick leave liability at June 30 of each year, OCSD assumes that all employees' accumulated sick leave balances will ultimately be paid out at 35 percent of the ending balance. The distribution between current and long-term portions of the liability is based on historical trends.

### Claims and Judgments

OCSD records estimated losses, net of any insurance coverage under its self-insurance program when it is probable that a claim liability has been incurred and when the amount of the loss can be reasonably estimated. Claims payable includes an estimate for incurred but unreported claims. The distribution between current and long-term portions of the liability is based on historical trends.

### Property Taxes

The County is permitted by State law (Proposition 13) to levy taxes at one percent of full market value (at time of purchase) and can increase the assessed value no more than two percent per year. OCSD receives a share of this basic levy, proportionate to what was received in the 1976 to 1978 period.

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments which become delinquent after December 10 and April 10.



## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

The County bills and collects the property taxes and remits them to OCSD in installments during the year. Property tax revenues are recognized when levied to the extent that they are available to finance current operations. The Board of Directors has designated property tax revenue to be used for the annual debt service requirements prior to being used as funding for current operations.

### Capital Facilities Capacity Charges

Capital facilities capacity charges represent fees imposed at the time a structure is newly connected to the District's system, directly or indirectly, or an existing structure or category of use is increased. This charge is to pay for District facilities in existence at the time the charge is imposed or to pay for new facilities to be constructed that are of benefit to the property being charged.

### Capital Contributions Received from (Returned to) other Agencies

Capital contributions consist of charges to certain special districts and agencies for their agreed-upon share of additions to capital assets and equity share in OCSD's Joint Works Treatment Facilities as prescribed in the agreements.

### Operating and Non-operating Revenues and Expenses

Operating revenues and expenses result from collecting, treating, and disposing of wastewater and inspection and permitting services. OCSD's operating revenues consist of charges to customers for the services provided. Operating expenses include the cost of providing these services, administrative expenses, and depreciation and amortization expenses. All revenues and expenses not meeting these definitions and which are not capital in nature are reported as non-operating revenues and expenses.

### Construction Commitments

OCSD has active construction projects to add additional capacity, improve treatment, or replace/rehabilitate existing assets. At June 30, 2010, the outstanding commitments with contractors totaled \$117 million.

### Self-Insurance Plans

For the year ended June 30, 2010, OCSD was self-insured for portions of workers' compensation, property damage, and general liability. The self-insurance portion of the workers' compensation exposure is the \$500,000 deductible per occurrence below the outside excess insurance coverage to statutory levels. The self-insurance portion of the property damage exposure covering fire and other perils is the \$250,000 per occurrence deductible (for most perils) under the outside excess property insurance coverage to \$1 billion. The self-insurance portion of the property damage exposure covering flood is the \$100,000 per occurrence deductible with outside excess property insurance coverage to \$300 million. OCSD is self-insured for virtually all property damage from the peril of earthquake. The self-insurance portion of the boiler & machinery exposure is the deductible ranging from \$25,000 to \$350,000 under the outside excess boiler & machinery insurance coverage to \$100 million per occurrence combined limit. The self-insurance portion of the general liability exposure is the \$250,000 per occurrence deductible (\$500,000 for employment practices liability) under the outside excess liability coverage to \$30 million per occurrence and aggregate. The self-insurance portion of the pollution liability exposure is the \$100,000 per loss deductible under the outside pollution liability insurance coverage to \$10 million. The significant changes in insurance coverage during the fiscal year ended June 30, 2010 are as follows:

- The deductible for property damage exposure covering fire and most other perils increased from \$25,000 to \$250,000.

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

During the past three fiscal years there have been no settlements in excess of covered amounts. Claims against OCSD are processed by outside insurance administrators. These claims are charged to claims expense based on amounts which will ultimately be paid. Claims incurred but not yet reported have been considered in determining the accrual for loss contingencies. OCSD management believes that there are no unrecorded claims as of June 30, 2010 that would materially affect the financial position of OCSD.

Deferred Compensation Plan

OCSD offers its employees a deferred compensation plan established in accordance with Internal Revenue Code Section 457. The plan permits all employees of OCSD to defer a portion of their salary until future years. The amount deferred is not available to employees until termination, retirement, death or for unforeseeable emergency. The assets of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries. Since the plan assets are administered by an outside party and are not subject to the claims of OCSD's general creditors, in accordance with GASB Statement 32, the plan's assets and liabilities are not included within OCSD's financial statements.

Subsequent Events

Management has evaluated subsequent events through October 20, 2010. Management believes no events have occurred subsequent to the statement of financial position date and through October 20, 2010 that would require adjustments to or disclosure in the District's financial statements.

(2) Cash and Investments

Cash and investments as of June 30, 2010 are classified within the accompanying Statement of Net Assets as follows:

Statement of Net Assets:	
Current, Unrestricted:	
Cash and cash equivalents	\$ 49,537,559
Investments	310,335,760
Subtotal - current, unrestricted	<u>359,873,319</u>
Restricted:	
Cash and cash equivalents	86,629,639
Investments	26,829,427
Subtotal - restricted	<u>113,459,066</u>
Total cash and cash equivalents and investments	<u>\$ 473,332,385</u>

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

Cash and investments consist of the following as of June 30, 2010:

Cash on hand		\$	2,000
Deposits with financial institutions			1,797,573
Managed portfolio - cash and investments			358,073,746
Subtotal - unrestricted cash and investments		\$	359,873,319
Monies held by trustees:			
Cash and cash equivalents	\$	86,629,639	
Investment contracts		26,829,427	
Subtotal - monies held by trustees			113,459,066
Grand total cash and investments			\$ 473,332,385

Investments Authorized by the California Government Code and OCSD's Investment Policy

The table below identifies the investment types that are authorized by the California Government Code and OCSD's investment policy. The table also identifies certain provisions of either the California Government Code or OCSD's investment policy (whichever is more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

A separate table addresses investments of debt proceeds that are held by trustees. Those investments are governed by the provisions of the debt agreements rather than the general provisions of the California Government Code or OCSD's investment policy.

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2010

Investment Type - Authorized by the California Government Code	Authorized by OCSD's Investment Policy?	Maximum Maturity <sup>(1)(3)</sup>	Maximum Percentage of Portfolio <sup>(1)</sup>	Maximum Investment in a Single Issuer <sup>(1)</sup>
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
California State Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days / 31 days	15% / 25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	Yes	90 days <sup>(2)</sup>	5% <sup>(2)</sup>	None
Corporate Medium-Term Notes	Yes	5 years	30%	None
Mutual Funds	Yes	N/A	15% <sup>(2)</sup>	10%
Money Market Mutual Funds	Yes	N/A	15% <sup>(2)</sup>	None
Mortgage Pass-Through Securities/CMO	Yes	5 years	20%	None
County Investment Pools	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None

Notes

(1) Restrictions are in accordance with the California Government Code unless indicated otherwise.

(2) The restriction is in accordance with OCSD's Investment Policy which is more restrictive than the California Government Code.

(3) As allowed by California Government Code Section 53601, the Board of Directors has adopted a policy of no maximum maturity for investments purchased by OCSD's external money manager for the long-term investment portfolio. However, the duration of the long-term investment portfolio can never exceed 60 months. Investments purchased for the short-term portfolio are subject to the maturity restrictions noted in this table.

Investments Authorized by Debt Agreements

The investment of debt proceeds held by trustees is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code on OCSD's investment policy. The table below identifies the investment types that are authorized for investments held by OCSD's trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

Investment Type - Authorized by the California Government Code	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in a Single Issuer
State and Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	10%
Commercial Paper	270 days / 31 days	15% / 30%	10%
Negotiable Certificates of Deposit	5 years	30%	10%
Repurchase Agreements	1 year	None	None
Corporate Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Guaranteed Investment Contracts	N/A	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer an investment has before maturity, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that OCSD manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time, as necessary to provide the cash flow and liquidity needed for operations.

OCSD monitors the interest rate risk inherent in its managed portfolio by measuring the modified duration of its portfolio. The duration of monies held for shorter term purposes is recommended by OCSD's Treasurer and is based on OCSD's cash flow requirements in meeting current operating and capital needs. The average duration of monies invested for shorter term purposes may never exceed 180 days. The duration of monies held for longer term purposes is recommended annually by OCSD's Treasurer and is based on OCSD's five-year cash flow forecast. The average duration may not exceed 120 percent nor be less than 80 percent of the recommended duration. The average duration of monies invested for longer term purposes may never exceed 60 months. There is no stated maturity for the Money Market Mutual Funds.

Following is a table which summarizes OCSD's investments by purpose with the modified duration.

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

Investment Type	Fair Value	Modified Duration (in years)	Modified Duration (in months)
<b>Short-Term Portfolio:</b>			
U.S. Treasury Bills	\$ 25,988,306	0.079	0.96
U.S. Agency Securities	20,788,377	0.131	1.59
Commercial Paper	1,299,525	0.016	0.19
Corporate Medium-Term Notes	2,350,299	0.094	1.14
Repurchase Agreements	12,500,000	0.003	0.04
Local Agency Investment Fund (LAIF)	4,916,285	N/A	N/A
Money Market Mutual Funds	575,976	0.083	1.01
Short-term portfolio subtotal	<u>\$ 68,418,768</u>	0.080	0.97
<b>Long-Term Portfolio:</b>			
U.S. Treasury Bills	\$ 699,991	0.022	0.27
U.S. Treasury Notes	150,797,703	3.339	40.62
U.S. Treasury Obligations	3,966,776	2.914	35.45
U.S. Agency Securities	18,812,292	1.743	21.21
U.S. Govt. Backed Mortgage Pools	575,953	2.420	29.44
Taxable Municipal Bonds	7,063,751	6.612	80.45
Corporate Medium-Term Notes	102,789,418	2.527	30.75
Money Market Mutual Funds	535,681	0.078	0.95
Mortgage Pass-Through Securities/CMO	4,413,413	2.546	30.98
Long-term portfolio subtotal	<u>\$ 289,654,978</u>	2.871	34.93
<b>Total Portfolio</b>	<u><u>\$ 358,073,746</u></u>		

OCSD monitors the interest rate risk inherent in its other investments using specific identification of the investments. Following is a table of these investments as of fiscal year end.

	Fair Value	Maturities
Investments held by fiscal agents:		
Money Market Mutual Funds:		
First American Treasury Obligations Fund	\$ 384,457	N/A
Blackrock Institutional Funds	19,150,785	N/A
Blackrock Institutional Funds	19,816,813	N/A
First American Government Obligations Fund	7,724,602	N/A
First American Government Obligations Fund	2,782,922	N/A
First American Prime Obligations Fund	13,077,862	N/A
Blackrock Institutional Funds	28,963	N/A
Local Agency Investment Fund (LAIF)	23,663,235	N/A
Guaranteed Investment Agreements:		
Bayerische Landesbank Girozentrale - 2000 COP	17,311,427	August 1, 2016
FSA Capital Management Services LLC - 2007A COP	9,518,000	January 30, 2030
Fair Value of Investments Held by Fiscal Agents	<u><u>\$ 113,459,066</u></u>	

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2010

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

OCSD's investments (including investments held by trustees) include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above):

- Mortgage-backed securities: These securities are subject to early payment in a period of declining interest rates. The resulting reduction in expected total cash flows affects the fair value of these securities, making them highly sensitive to change in interest rates. At fiscal year end, the fair value of investments in mortgage-backed securities totaled \$5,487,060 including \$4,413,413 of mortgage pass-through securities, \$575,953 of U.S. government backed mortgage pools, and \$497,694 of U.S. agency securities.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The following table presents the minimum rating as required by the California Government Code, OCSD's investment policy, or debt agreements, and the actual rating as of year-end for each investment type:

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

Investment Type and the Lowest Rating Reported at Year End	Fair Value	
Investments with no legal minimum rating & no required disclosure:		
U.S. Treasury Obligations	\$ 181,452,776	
U.S. Agency Securities - GNMA	575,953	
Subtotal		\$ 182,028,729
Investments with no legal minimum rating:		
U.S. Agency Securities (other than GNMA):		
Rating of AGY (Standard & Poor's)	39,600,669	
Municipal Bonds:		
Rating of A1 (Moody)	(2,314)	
Rating of AA2 (Moody)	900,189	
Rating of AA- (Standard & Poor's)	2,667,701	
Rating of AA3 (Moody)	3,498,175	
Repurchase Agreements:		
Not rated at fiscal year end	12,500,000	
Local Agency Investment Fund (LAIF):		
Not rated at fiscal year end	28,579,520	
Investments with fiscal agents - Guaranteed Investment Contracts:		
Not rated at fiscal year end	26,829,427	
Subtotal		114,573,367
Investments with a legal minimum rating (or its equivalent) of A:		
Commercial Paper:		
Rating of A-1 (Standard & Poor's)	1,299,525	
Corporate Medium-Term Notes:		
Rating of A (Standard & Poor's)	5,796,020	
Rating of A+ (Fitch)	2,223,078	
Rating of A (Fitch)	2,006,529	
Rating of A- (Fitch)	1,644,885	
Rating of A1 (Moody)	6,991,529	
Rating of A2 (Moody)	17,239,306	
Rating of A3 (Moody)	14,611,176	
Rating of AA- (Fitch)	103,197	
Rating of AA2 (Moody)	682,017	
Rating of AAA (Standard & Poor's)	45,533,707	
Rating of B3 (Moody)*	390,000	
Rating of BBB+ (Standard & Poor's)*	4,490,193	
Rating of BBB (Standard & Poor's)*	498,430	
Rating of BBB (Fitch)*	2,808,150	
Rating of WR (Moody)*	121,500	
Money Market Mutual Funds:		
Rating of AAA (Standard & Poor's)	1,111,657	
Invested with fiscal agents:		
Rating of Aaa (Moody)	62,966,404	
Subtotal		170,517,303
Investments with a legal minimum rating (or its equivalent) of AA:		
Mortgage Pass-Through Securities/CMO:		
Rating of AAA (Standard & Poor's)	2,089,379	
Rating of AGY (Standard & Poor's)	2,324,034	
Not rated at fiscal year end	-	
Subtotal		4,413,413
Total		<u>\$ 471,532,812</u>

\* Investment was in compliance with legal requirements at the time it was purchased.



## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

### Concentration of Credit Risk

Limitations on the amount that OCSD is allowed to invest in any one issuer have been identified previously in the section, "Investments Authorized by the California Government Code and OCSD's Investment Policy" and in the section, "Investments Authorized by Debt Agreements." OCSD follows whichever guideline is the most restrictive. As of fiscal year end, OCSD had no investments of any of the types subject to limitation representing more than 5 percent of OCSD's investments.

### Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and OCSD's investment policy contain legal requirements that limit the exposure to custodial credit risk for deposits as follows: a financial institution must secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and OCSD's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments.

As of June 30, 2010, OCSD's investments in the following investment types were held by the fiscal agent's safekeeping department of the broker-dealer (counterparty) used to buy the securities.

Money market mutual funds	\$ 62,966,404
Local Agency Investment Fund (LAIF)	23,663,235
Guaranteed investment contracts	<u>26,829,427</u>
Total	<u>\$113,459,066</u>

### Investment in State Investment Pool

OCSD is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of OCSD's investment in this pool is reported in the accompanying financial statements at amounts based upon OCSD's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, other asset-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured notes.

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2010

**(3) Capital Assets**

Capital asset activity for the year ended June 30, 2010 is as follows:

	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010
Capital assets not depreciated:				
Cost:				
Land	\$ 13,021,480	\$ -	\$ -	\$ 13,021,480
Construction in progress*	1,478,567,309	252,869,203	(283,083,955)	1,448,352,557
Total nondepreciable assets	<u>1,491,588,789</u>	<u>252,869,203</u>	<u>(283,083,955)</u>	<u>1,461,374,037</u>
Depreciable capital assets:				
Cost:				
Sewage collection facilities*	507,791,926	84,155,111	-	591,947,037
Sewage treatment facilities*	693,085,006	147,815,752	(66,137)	840,834,621
Effluent disposal facilities	97,014,820	-	-	97,014,820
Solids disposal facilities	3,463,236	-	-	3,463,236
General and administrative facilities*	144,519,735	50,401,407	(376,715)	194,544,427
Excess purchase price over book value on acquired assets	19,979,000	-	-	19,979,000
Subtotal	<u>1,465,853,723</u>	<u>282,372,270</u>	<u>(442,852)</u>	<u>1,747,783,141</u>
Accumulated depreciation:				
Sewage collection facilities*	(228,334,554)	(15,588,528)	-	(243,923,082)
Sewage treatment facilities	(455,184,904)	(24,270,099)	66,137	(479,388,866)
Effluent disposal facilities	(49,325,539)	(1,894,777)	-	(51,220,316)
Solids disposal facilities	(3,088,222)	(9,719)	-	(3,097,941)
General and administrative facilities*	(105,685,145)	(9,614,964)	376,715	(114,923,394)
Excess purchase price over book value on acquired assets	(15,127,307)	(657,709)	-	(15,785,016)
Subtotal	<u>(856,745,671)</u>	<u>(52,035,796)</u>	<u>442,852</u>	<u>(908,338,615)</u>
Net depreciable assets	<u>609,108,052</u>	<u>230,336,474</u>	<u>-</u>	<u>839,444,526</u>
Net capital assets	<u>\$ 2,100,696,841</u>	<u>\$ 483,205,677</u>	<u>\$ (283,083,955)</u>	<u>\$ 2,300,818,563</u>

\*Beginning balances have been reclassified to reflect additional information not available as of June 30, 2009.

**(4) Long-Term Liabilities**

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2010:

	Arbitrage Payable	Compensated Absences	Claims and Judgments	Certificates of Participation/Notes and Revenue Obligation	Net Pension Obligation	Net OPEB Obligation	Totals
Balance, July 1	\$ 1,019,300	\$ 7,082,067	\$ 1,786,551	\$ 1,241,530,000	\$ 6,377,436	\$ 655,831	\$ 1,258,451,185
Additions	308,546	7,578,588	599,305	245,865,000	851,009	809,821	256,012,269
Deletions	-	(6,732,543)	(643,875)	(200,145,000)	(271,470)	(634,067)	(208,426,955)
Balance, June 30	<u>1,327,846</u>	<u>7,928,112</u>	<u>1,741,981</u>	<u>1,287,250,000</u>	<u>6,956,975</u>	<u>831,585</u>	<u>1,306,036,499</u>
Due within one year	(1,120,713)	(6,845,132)	(447,830)	(191,760,000)			(200,173,675)
Unamortized (discount) premium	-	-	-	19,005,753	-	-	19,005,753
Unamortized deferred amount on refundings	-	-	-	(12,824,501)	-	-	(12,824,501)
Long-term amount	<u>\$ 207,133</u>	<u>\$ 1,082,980</u>	<u>\$ 1,294,151</u>	<u>\$ 1,101,671,252</u>	<u>\$ 6,956,975</u>	<u>\$ 831,585</u>	<u>\$ 1,112,044,076</u>

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

Arbitrage Payable

The Tax Reform Act of 1986 (the Act) requires OCSD to calculate and remit rebatable arbitrage earnings to the Internal Revenue Service. Certain of OCSD's debt and interest earnings on the proceeds thereof are subject to the requirements of the Act. OCSD's liability at June 30, 2010 is \$1,327,846.

Compensated Absences

OCSD's policies related to compensated absences are described in Note 1. OCSD's liability at June 30, 2010 is \$7,928,112 with an estimated \$6,845,132 to be paid or used within the next fiscal year.

Claims and Judgments Payable

OCSD is self-insured in a number of areas as described in Note 1. The following is a summary of the claims and judgments payable as of June 30, 2010 and 2009:

	2009-10	2008-09
Claims and judgments payable at July 1	\$ 1,786,551	\$ 2,275,389
Claims incurred during the fiscal year	90,432	163,264
Adjustments to the prior year	508,873	(184,602)
Payments on claims during the fiscal year	<u>(643,875)</u>	<u>(467,500)</u>
Claims and judgments payable at June 30	1,741,981	1,786,551
Less: current portion	<u>(447,830)</u>	<u>(339,730)</u>
Total long-term claims and judgments payable	<u>\$ 1,294,151</u>	<u>\$ 1,446,821</u>

Certificates of Participation

OCSD issues certificates of participation in order to finance construction of the treatment facilities. Each certificate of participation represents a direct and proportionate interest in the semi-annual interest payments. Installment payments for the issues are payable from any source of lawfully available funds of OCSD. Certificates of participation at June 30, 2010 are summarized as follows:

	Amount
2000 refunding certificates of participation	\$ 194,900,000
2003 certificates of participation	191,500,000
2007A refunding certificates of participation	93,265,000
2007B certificates of participation	290,130,000
2008A refunding certificates of participation	46,430,000
2008B refunding certificates of participation	27,390,000
2009A certificates of participation	197,770,000
2009B refunding certificates of anticipation notes	165,865,000
2010A wastewater revenue obligations	<u>80,000,000</u>
Total certificates of participation payable	<u>\$ 1,287,250,000</u>

Outstanding Certificates of Participation

All of the outstanding debt of OCSD is senior lien debt with rate covenants that require a minimum coverage ratio of 1.25. The minimum coverage ratio is the ratio of net annual

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

revenues available for debt service requirements to total annual debt service requirements. As of June 30, 2010, the coverage ratio for senior lien debt was 2.31.

### August 2000 Refunding Certificates of Participation

On August 31, 2000, OCSD completed the sale of \$218,600,000 of refunding certificates of participation. The certificates were issued to refund the remaining outstanding principal balance of the 1990-92 Series A, B, and C certificates of participation and to reimburse OCSD for improvements made to the wastewater system.

The interest rate on the refunding certificates is adjusted by the remarketing agent daily based on market interest rates. The weighted average interest rate for the fiscal year ended June 30, 2010 was 0.24 percent. Annual principal payments are due on August 1, beginning August 1, 2001.

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2010 reserve of \$17,445,298 is held by US Bank, the trustee, and meets the reserve requirement.

### August 2003 Certificates of Participation

On August 26, 2003, OCSD completed the sale of \$280,000,000 of certificates of participation. The certificates were issued to finance and to reimburse OCSD for the acquisition, construction, and installation of additional improvements made to the wastewater system. The interest rate on the certificates is fixed and ranges from 5.00 percent to 5.25 percent. Annual principal payments are due on February 1, beginning February 1, 2021.

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2010 reserve of \$19,150,785 is held by Union Bank, the trustee, and meets the reserve requirement.

### May 2007 Refunding Certificates of Participation

On May 22, 2007, OCSD completed the sale of \$95,180,000 of refunding certificates of participation. The certificates were issued to refund \$88,500,000 of the outstanding principal balance of the 2003 Series certificates of participation (see above). The interest rate on the refunding certificates is fixed and ranges from 4.00 percent to 4.5 percent. Annual principal payments are due on February 1, beginning February 1, 2008.

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2010 reserve of \$9,518,000 is held by Union Bank, the trustee, and meets the reserve requirement.

### December 2007 Certificates of Participation

On December 20, 2007, OCSD completed the sale of \$300,000,000 of certificates of participation. The certificates were issued to finance and to reimburse OCSD for the acquisition, construction, and installation of additional improvements made to the wastewater system. The interest rate on the refunding certificates is fixed and ranges from 4.00 percent to 5.25 percent. Annual principal payments are due on February 1, beginning February 1, 2008.

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2010 reserve of \$19,816,812 is held by Union Bank, the trustee, and meets the reserve requirement.

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

### May 2008 Refunding Certificates of Participation

On May 29, 2008, OCSD completed the sale of \$77,165,000 of refunding certificates of participation. The certificates were issued to refund the \$85,505,000 outstanding principal balance of the 1992 Series certificates of participation. The interest rate on the refunding certificates is fixed and ranges from 2.95 percent to 4.0 percent. Annual principal payments are due on February 1, beginning February 1, 2009.

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2010 reserve of \$7,716,500 is held by US Bank, the trustee, and meets the reserve requirement.

### September 2008 Refunding Certificates of Participation

On September 11, 2008, OCSD completed the sale of \$27,800,000 of refunding certificates of participation. The certificates were issued to refund the \$26,900,000 outstanding principal balance of the 1993 Series certificates of participation. The interest rate on the refunding certificates is fixed and ranges from 2.80 percent to 3.0 percent. Annual principal payments are due on August 1, beginning August 1, 2009.

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2010 reserve of \$2,782,912 is held by US Bank, the trustee, and meets the reserve requirement.

### May 2009 Certificates of Participation

On May 7, 2009, OCSD completed the sale of \$200,000,000 of certificates of participation. The certificates were issued to finance and to reimburse OCSD for the acquisition, construction, and installation of additional improvements made to the wastewater system. The interest rate on the certificates is fixed and ranges from 3.00 percent to 5.00 percent. Annual principal payments are due on February 1, beginning February 1, 2010.

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2010 reserve of \$13,077,683 is held by US Bank, the trustee, and meets the reserve requirement.

### December 2009 Revenue Refunding Certificate Anticipation Notes

On December 1, 2009, OCSD completed the sale of \$165,865,000 of revenue refunding certificate anticipation notes. The notes were issued to refund the \$176,115,000 outstanding principal balance of the 2008 Series C refunding certificates of participation. The interest rate on the notes is fixed at 2.0 percent. The notes will mature on December 1, 2010. OCSD expects the principal of and interest on the notes to be paid from proceeds of the sale, prior to the maturity date, of a future series of certificates of participation, notes or other obligations.

The aggregate difference in debt service between the refunding debt and the refunded debt is a negative amount of approximately \$23,000. The total future payments for the new debt provides a net present value loss of approximately \$333,000 to refund the old debt in payments. The trust agreement for the certificates does not require the establishment of a reserve.

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Notes to Basic Financial Statements

For the Year Ended June 30, 2010

May 2010 Wastewater Revenue Obligations

On May 18, 2010, OCSD completed the sale of \$80,000,000 of wastewater revenue obligations under the federally taxable Build America Bonds program. The obligations were issued to finance and to reimburse OCSD for the acquisition, construction, and installation of additional improvements made to the wastewater system. The stated interest rate on the obligations is fixed and ranges from 5.56 percent to 5.58 percent, however, in accordance with their designation as Build America Bonds, OCSD expects to receive a cash subsidy from the United States Treasury equal to 35 percent of the interest payable with respect to these revenue obligations. Thus, the net interest rate on the obligations is fixed and ranges from 3.614 percent to 3.627 percent. Annual principal payments are due on February 1, beginning February 1, 2034.

The trust agreement for the revenue obligations does not require the establishment of a reserve.

Annual Amortization Requirements

The annual requirements to amortize all debt related to certificates of participation as of June 30, 2010, are as follows:

Year Ending June 30,	Principal	Estimated Interest	Total
2011	\$ 191,760,000	\$ 44,209,602	\$ 235,969,602
2012	26,670,000	41,956,043	68,626,043
2013	27,865,000	41,323,786	69,188,786
2014	43,040,000	40,506,977	83,546,977
2015	30,920,000	39,598,881	70,518,881
2016-2020	180,600,000	186,892,642	367,492,642
2021-2025	179,245,000	162,171,330	341,416,330
2026-2030	209,485,000	118,950,738	328,435,738
2031-2035	254,245,000	61,665,456	315,910,456
2036-2040	143,420,000	13,785,736	157,205,736
<b>Total</b>	<b>\$ 1,287,250,000</b>	<b>\$ 751,061,191</b>	<b>\$ 2,038,311,191</b>

(5) Net Assets

The difference between assets and liabilities is reported as net assets. Net assets are classified as restricted, unrestricted, or invested in capital assets, net of related debt. Net assets at June 30, 2010 consisted of the following:

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

	June 30, 2010
Invested in capital assets, net of related debt:	
Capital assets, net of accumulated depreciation	\$ 2,300,818,563
Outstanding debt issued to acquire capital assets, net of: unamortized bond discount, deferred amount on refundings, and unspent proceeds	(1,179,761,456)
Subtotal	1,121,057,107
Unrestricted:	
Preliminary Survey	11,491,296
All other unrestricted	298,524,266
Total Net Assets	<u>\$ 1,431,072,669</u>

(6) Pension Benefits

OCSD has two pension plans for retirees: a defined benefit pension plan maintained through and by the Orange County Employees' Retirement System (OCERS) and the Additional Retiree Benefit Account (ARBA) administered directly by OCSD.

Pension Plan

OCSD participates in the Orange County Employee's Retirement System (OCERS), a cost-sharing multiple-employer, defined benefit pension plan which is governed and administered by a nine member Board of Retirement. OCERS was established in 1945 under the provisions of the County Employees Retirement Law of 1937, and provides members with retirement, death, disability, and cost-of-living benefits. OCERS issues a stand-alone comprehensive annual financial report which can be obtained from OCERS at 2223 Wellington Avenue, Santa Ana, California 92701.

*Benefits:* All OCSD employees except for interns and the Board of Directors participate in OCERS. Employees who retire at or after age 50 with ten or more years of service are entitled to an annual retirement allowance. The amount of the retirement allowance is based upon the member's age at retirement, the member's "final compensation" as defined in Section 31462 of the Retirement Law of 1937, the total years of service under OCERS, and the employee's classification as a Tier I or Tier II member. Benefits fully vest on reaching five years of service. OCERS also provides death and disability benefits.

*Contributions:* As a condition of participation under the provisions of the County Employees Retirement Law of 1937, members are required to contribute a percentage of their annual compensation to OCERS. Tier I and Tier II covered employees are required to contribute 8.20% - 14.39% and 7.86% - 14.39%, respectively, of their annual compensation to OCERS. OCSD is required to make periodic contributions to OCERS in amounts that are estimated to remain a constant percentage of covered employees' compensation such that, when combined with covered employees' contributions, will fully provide for all covered employees' benefits by the time they retire. For the fiscal years ended June 30, 2010, 2009, and 2008, the required contribution equaled the contribution actually made. Required contributions, which are actuarially determined, are set by OCERS.

The following table provides salary and contributions requirements for the two previous fiscal years and the current year.

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

	For the Fiscal Year Ending		
	June 30, 2008	June 30, 2009	June 30, 2010
Total Payroll Costs	\$ 56,671,683	\$ 61,110,535	\$ 62,934,336
Payroll Costs of Employees Covered by OCERS	53,576,940	57,681,058	60,593,735
Contributions Requirements:			
Contributed by Employees	3,753,147	4,031,980	4,317,182
Contributed by the District on Behalf of Employees	1,851,089	1,986,386	2,071,340
Total Employee Required Contribution	5,604,236	6,018,366	6,388,522
District Required Contribution	11,011,693	12,193,601	13,029,795
Total Contribution	\$ 16,615,929	\$ 18,211,967	\$ 19,418,317
Total Actual Contribution as a Percent of Required Contribution	100.00%	100.00%	100.00%
Employee Required Contribution as a Percent of Covered Payroll	10.46%	10.43%	10.54%
District Required Contribution as a Percent of Covered Payroll	20.55%	21.14%	21.50%
Total Contribution as a Percent of all Participating Entities' Contributions	6.21%	4.97%	7.02%

Additional Retiree Benefit Account (ARBA)

The OCSD ARBA plan is a single-employer defined benefit plan which was administered by OCERS until February 29, 2008, when OCSD began direct administration. This benefit was established by the OCSD Board of Directors on October 25, 1992. It provides a monthly payment to retirees towards the premium costs of health insurance for the retiree and eligible dependents. The retiree is not required to use this amount for health insurance premium or to remain on the OCSD medical plan. The plan is currently paying benefits to 134 retirees. The plan is included in OCSD's financial statements; stand-alone financial statements are not issued for the plan.

*Benefits:* Employees who retire receive \$10 per month for every year of service up to a maximum of 25 years, or \$250 per month. This amount is independent of salary and is fixed at retirement. Because the District cannot ensure the use of the benefit for payment of eligible health insurance expenditures, the benefit is taxable to the retiree. Survivor benefits are provided in the event that a retiree pre-deceases his/her spouse. For retirees hired prior to July 1, 1988, OCSD provides health insurance for coverage for 2½ months per year of service. ARBA benefits begin immediately after this benefit ends. For those hired on or after July 1, 1988, ARBA benefits begin immediately upon retirement and continue for life.

*Funding:* There are no employee contributions for this plan; OCSD covers 100% of the cost. An actuarial evaluation was performed as of June 30, 2009, using the Projected Unit Credit Cost method. This method represents the present value of benefits earned to date assuming that an employee earns benefits ratably over his/her career. An investment rate of return of 5.0% per year was used, and no cost of living or salary adjustment was used due to the flat dollar nature of the benefit. The unfunded actuarial liability was amortized on a level dollar basis over an open period of 30 years. OCSD utilizes a pay-as-you-go method for funding the plan.



**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

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

Fiscal Year	Annual Pension Cost		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/08	657,552	35.0%	5,920,600
6/30/09	705,246	35.2%	6,377,436
6/30/10	851,009	31.9%	6,956,975

The Schedule of Funding Progress shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll. This schedule presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Entry Age Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2005 *	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2007	7,395,472	-	7,395,472	-	49,788,835	14.9%
6/30/2009	8,904,499	-	8,904,499	-	57,681,058	15.4%

\*Actuarial valuation not performed for this year.

The annual pension cost and net pension obligation for the year ended June 30, 2008, 2009 and 2010 were as follows.

	For the Fiscal Year Ending		
	June 30, 2008	June 30, 2009	June 30, 2010
Annual required contribution	\$ 727,037	\$ 780,135	\$ 946,999
Interest on net pension obligation	329,603	355,236	318,871
Adjustment to annual required contribution	(399,088)	(430,125)	(414,861)
Annual pension cost	657,552	705,246	851,009
Contributions made	(230,330)	(248,410)	(271,470)
Increase in net pension obligation	427,222	456,836	579,539
Net pension obligation, beginning of year	5,493,378	5,920,600	6,377,436
Net pension obligation, end of year	<u>\$ 5,920,600</u>	<u>\$ 6,377,436</u>	<u>\$ 6,956,975</u>

(7) Other Postemployment Benefits

OCSD offers medical insurance to active and retired employees, as well as their qualified dependents. This is a single-employer defined benefit plan administered by OCSD. All retirees may choose coverage in an OCSD medical plan, with retirees paying the full premium. However, for employees hired prior to July 1, 1988, medical benefits begin immediately at retirement with OCSD paying 2.5 months of premium for each year of continuous service toward the cost of

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

coverage under OCSD medical plans. At the termination of this period the retiree may elect to continue coverage at his/her own expense. This plan was established and may be modified only by action of the OCSD Board of Directors. The plan is included in the OCSD financial statements; stand-alone financial statements are not issued.

As of the date of the actuarial valuation, there were 605 active employees, 169 retirees paying premiums, and 45 retirees whose premium is fully paid by OCSD. Premiums ranged between \$367.50 and \$2,678.42 per month, depending on the plan and number of dependents covered.

*Funding Policy:* There are no employee contributions to this plan; OCSD covers 100% of the cost. Retirees opting to remain with the plan after employment pay 100% of the premium cost, except for those for whom the District pays for a period (see above). An actuarial evaluation was performed as of July 1, 2009, using the Projected Unit Credit Cost method. This method represents the present value of benefits earned to date, assuming that an employee earns benefits ratably over his/her career. An investment rate of return of 5.0% per year was used. The rate of increase for healthcare premium was set as 7.0% for the 2009-10 fiscal year, 6.0% for FY 2010-11, and 5.0% for years thereafter. The unfunded actuarial liability was amortized on a level dollar basis over an open period of 30 years. OCSD utilizes a pay-as-you-go method for funding the plan. For fiscal year 2009-10, OCSD contributed \$634,067 and retirees contributed \$268,646 to cover current year expenditures.

*Annual OPEB Cost and Net OPEB Obligation:* The annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize the unfunded actuarial liabilities over 30 years.

The following OPEB cost and net OPEB obligation was determined for the year ended June 30, 2010:

Annual required contribution	\$ 819,692
Interest on net OPEB obligation	32,792
Adjustment to annual required contribution	(42,663)
Annual OPEB cost	<u>809,821</u>
Contributions made	(634,067)
Increase in net OPEB obligation	<u>175,754</u>
Net OPEB obligation, beginning of year	655,831
Net OPEB obligation, end of year	<u><u>\$ 831,585</u></u>

The District's annual OPEB cost contributed and the net OPEB obligation for 2010, 2009, and 2008 are shown in the following table.

Fiscal Year	Annual OPEB Cost			Net OPEB Obligation
	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Cost Contributed	
6/30/08	941,961	601,084	63.8%	340,877
6/30/09	937,649	622,696	66.4%	655,831
6/30/10	809,821	634,067	78.3%	831,585

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Notes to Basic Financial Statements

For the Year Ended June 30, 2010

*Funded Status and Progress:* The funding status of the plan as of the most recent actuarial valuation dates are as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
7/1/2005*	N/A	N/A	N/A	N/A	N/A	N/A
7/1/2007	-	9,949,638	9,949,638	0%	49,788,835	19.98%
7/1/2009	-	8,799,624	8,799,624	0%	57,681,058	15.26%

\*GASB Statement 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* was implemented on June 30, 2008 and thus earlier valuations were not done.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, compares whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial liabilities for benefits.

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

The ARC for the current year was determined as part of the 7/1/09 actuarial valuation using the Projected Unit Credit cost method. The actuarial assumptions include a 5% investment rate of return (changed from 6% for the 7/1/07 valuation) and an annual healthcare cost trend rate of 7% reduced by decrements of 1% per year to an ultimate rate of 5%. The UAAL is being amortized ratably over 30 years. Inflation assumptions are included as part of the healthcare cost trend.

(8) Transactions with Irvine Ranch Water District – Revenue Area No. 14

Formation of Revenue Area No. 14 & Excess Purchase Price Over Book Value of Acquired Assets

On July 1, 1985, Revenue Area No. 14 was formed as an independent special district as a result of a negotiated agreement between OCSD and Irvine Ranch Water District (IRWD). At the time of Revenue Area 14's creation, OCSD consisted of eight independent special districts (see Note 1 – Reporting Entity). The eight existing districts sold a portion of the joint treatment facilities and land to the newly created district and recorded capacity rights revenue at the time of the sale.

In accordance with the negotiated agreement between OCSD and IRWD, IRWD paid OCSD \$34,532,000 for an initial 15,000,000 gallons per day capacity in OCSD's joint treatment facilities

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

(with an ultimate collection capacity of 32,000,000 gallons per day) and for a pro-rata interest in real property (based on flow of 32,000,000 gallons per day). The book value of the assets acquired was determined to be \$14,553,000 as of June 30, 1986; these assets were recorded at book value in Revenue Area 14. The excess of the purchase price over the assets' book value was \$19,979,000 and was recorded as an intangible asset in Revenue Area 14. The excess of the purchase price over the assets' book value is being amortized over the remainder of the useful lives of the original assets acquired. As of June 30, 2010, after recognizing current year amortization of \$657,709, the unamortized amount of the excess of purchase price over the assets' book value was \$4,193,984.

### Annual Transactions

IRWD entered into a separate agreement with Revenue Area 14 whereby IRWD agreed to fund quarterly payment of Revenue Area 14's proportionate share of OCSD's joint capital outlay revolving fund budget requirements and certain capital improvements during the term of the agreement, which contribution of \$10,831,840 recorded in 2010. IRWD also agreed to fund the annual integration adjustment of Revenue Area 14's equity share in OCSD's Joint Works Treatment Facilities based on the flows discharged to OCSD. As the flows decreased during the year, an equity adjustment of \$23,571,054 to Revenue Area 14 was recognized in 2010. The net amount \$12,739,214 of these transactions is reflected as a reduction of capital contribution and an increase of due to other governmental agency in 2010.

During the fiscal year ended June 30, 2010, independent agreed-upon procedures were conducted on Revenue Area 14 to substantiate IRWD's cash balance of fiscal year 2008-09. As a result, a \$778,189 cash and other operating expense adjustments were made in 2010.

### Annual Cash Reserve Requirement

The cash reserve contribution requirement from IRWD at June 30, 2010; in accordance with Amendment No. 2 to the Agreement between IRWD and OCSD Acquiring Ownership Interests, Assigning Rights, and Establishing Obligations; is \$12 million. This cash reserve requirement is recognized as a liability to IRWD.

## (9) Commitments

Groundwater Replenishment System: In March 2001, OCSD entered into an agreement with the Orange County Water District, California, to design and construct Phase 1 of the "Groundwater Replenishment System" (GWRS). OCSD has no explicit, measurable equity interest in GWRS. No separate financial statements are prepared for GWRS.

The cost of this project is to be paid equally (50 percent shares) by each agency. The GWRS is a joint effort by the two agencies to provide reclaimed water for replenishment of the Orange County Groundwater Basin and to augment the seawater intrusion barrier. The first phase of the GWRS became operational in January 2008 with an annual production goal of approximately 72,000 acre-feet per year of recycled water. Future phases of the GWRS will be built in increments over the next 20-25 years based on availability of wastewater flows to a planned built-out capacity of 145,600 acre-feet per year. With the completion of Phase 1, the GWRS has the capacity to divert up to 100 million gallons per day of flow from OCSD's ocean discharge for peak flow storm relief.

As of June 30, 2010, the total cost of GWRS Phase 1 was approximately \$496.80 million. Of this amount, up to \$92.50 million may be reimbursed through grants from the U.S. Environmental Protection Agency, the U.S. Bureau of Reclamation, the State Water Resources Control Board, and others. OCSD's estimated gross and net share is \$248.40 million and \$202.15 million, respectively, assuming all grant funds are received. Costs incurred by OCSD through June 30, 2010 total \$201.5 million.

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

Secondary Treatment: On July 17, 2002, the Board of Directors Approved Resolution No. OCSD-14, "Establishing the Policy for Level of Treatment of Wastewater Discharged into the Ocean". This resolution established OCSD's policy to treat all wastewater discharges into the ocean to secondary treatment standards thereby providing for continued public safety, marine ecosystem protection, and water reclamation opportunities. To implement this policy, OCSD staff was directed to immediately proceed with the planning, design, and implementation of treatment methods that will allow the agency to meet Federal Clean Water Act secondary treatment standards.

OCSD estimates that it will take a total of approximately eleven years and additional capital improvement costs of \$627 million to reach secondary treatment discharge standards. Secondary treatment discharge standards are scheduled to be reached at the end of 2012. In the interim, OCSD will operate the plants to meet the requirements of the consent decree and the NPDES permit and will complete planning, design, construction, and operation of facilities per the schedule and the details of the consent decree.

Relocation of the Santa Ana Regional Interceptor: On June 29, 2010, the District entered into an agreement to lend the Orange County Flood Control District (OCFCD) 60 percent of the amount of the contract awarded to design and construct the relocation of the Santa Ana Regional Interceptor, but not to exceed \$72 million. OCFCD agrees to repay the loan from any subvention funds received by OCFCD, with the total balance repaid by no later than July 1, 2022. Repayment installments will be made within 30 days equal to 60 percent of any subvention funds received by OCFCD. Interest shall accrue on the unpaid balance from July 1, 2018 at an annual interest rate of three percent until the unpaid balance has been repaid. As of the date of the auditor's report, no actual dollar amount has yet been loaned through this agreement by OCSD to OCFCD.

**ORANGE COUNTY SANITATION DISTRICT  
SUPPLEMENTARY INFORMATION**

**ORANGE COUNTY SANITATION DISTRICT**

Schedule of Net Assets

June 30, 2010

With Comparative Totals for June 30, 2009

	Revenue Area No. 14	Consolidated Revenue Area	Eliminations	Totals	
				2010	2009
<b>Current assets:</b>					
Cash and cash equivalents	\$ 5,788,773	\$ 43,748,786	\$ -	\$ 49,537,559	\$ 39,199,955
Investments	36,264,672	274,071,088	-	310,335,760	399,761,799
Accounts receivable, net of allowance for uncollectibles	-	13,069,682	-	13,069,682	11,864,637
Accrued interest receivable	-	1,108,027	-	1,108,027	2,157,015
Connection fees receivable	-	996,430	-	996,430	388,031
Property tax receivable	-	2,040,072	-	2,040,072	3,221,629
Inventories	-	5,402,069	-	5,402,069	5,196,457
Prepaid expenses	-	1,134,886	-	1,134,886	589,228
Prepaid retirement	-	14,578,000	-	14,578,000	12,605,000
<b>Total current assets</b>	<b>42,053,445</b>	<b>356,149,040</b>	<b>-</b>	<b>398,202,485</b>	<b>474,983,751</b>
<b>Noncurrent assets:</b>					
<b>Restricted:</b>					
Cash and cash equivalents	-	86,629,639	-	86,629,639	68,551,793
Investments	-	26,829,427	-	26,829,427	26,829,427
Accrued interest receivable	-	210,730	-	210,730	215,140
<b>Unrestricted:</b>					
Non-depreciable capital assets	54,373,804	1,407,000,233	-	1,461,374,037	1,213,152,503
Depreciable capital assets, net of accumulated depreciation	45,682,121	793,762,405	-	839,444,526	887,544,338
Deferred charges	-	9,733,908	-	9,733,908	9,433,482
Other noncurrent assets, net	420,939	11,080,701	-	11,501,640	19,475,424
<b>Total noncurrent assets</b>	<b>100,476,864</b>	<b>2,335,247,043</b>	<b>-</b>	<b>2,435,723,907</b>	<b>2,225,202,107</b>
<b>Total assets</b>	<b>142,530,309</b>	<b>2,691,396,083</b>	<b>-</b>	<b>2,833,926,392</b>	<b>2,700,185,858</b>
<b>Current liabilities:</b>					
Accounts payable	-	20,091,995	-	20,091,995	30,456,796
Accrued expenses	-	7,259,202	-	7,259,202	8,350,733
Retentions payable	-	1,587,986	-	1,587,986	1,065,892
Interest payable	-	19,643,344	-	19,643,344	16,646,631
Due to other governmental agency	42,053,445	-	-	42,053,445	30,999,633
Current portion of long-term obligations	-	200,173,675	-	200,173,675	206,877,712
<b>Total current liabilities</b>	<b>42,053,445</b>	<b>248,756,202</b>	<b>-</b>	<b>290,809,647</b>	<b>294,397,397</b>
<b>Noncurrent liabilities:</b>					
Noncurrent portion of long-term obligations	-	1,112,044,076	-	1,112,044,076	1,057,467,549
<b>Total liabilities</b>	<b>42,053,445</b>	<b>1,360,800,278</b>	<b>-</b>	<b>1,402,853,723</b>	<b>1,351,864,946</b>
<b>Net assets:</b>					
<b>Invested in capital assets, net of related debt:</b>					
Collection system	21,767,399	437,735,801	-	459,503,200	423,243,200
Treatment and disposal -Land	406,846	4,068,905	-	4,475,751	4,475,751
Treatment and disposal system	77,881,680	1,758,957,932	-	1,836,839,612	1,672,977,890
Capital assets related debt	-	(1,179,761,456)	-	(1,179,761,456)	(1,151,827,717)
<b>Unrestricted</b>	<b>420,939</b>	<b>309,594,623</b>	<b>-</b>	<b>310,015,562</b>	<b>399,451,788</b>
<b>Total net assets</b>	<b>\$ 100,476,864</b>	<b>\$ 1,330,595,805</b>	<b>\$ -</b>	<b>\$1,431,072,669</b>	<b>\$ 1,348,320,912</b>

**ORANGE COUNTY SANITATION DISTRICT**  
Schedule of Revenues, Expenses, and Changes in Net Assets  
For the Year Ended June 30, 2010  
With Comparative Totals for June 30, 2009

	Revenue Area No. 14	Consolidated Revenue Area	Totals	
			2010	2009
Operating revenues:				
Service charges	\$ 6,577,521	\$ 218,481,000	\$ 225,058,521	\$ 206,422,467
Permit and inspection fees	5,604	623,478	629,082	894,578
Total operating revenues	<u>6,583,125</u>	<u>219,104,478</u>	<u>225,687,603</u>	<u>207,317,045</u>
Operating expenses other than depreciation and amortization:				
Salaries and benefits	1,501,867	68,150,037	69,651,904	67,497,961
Utilities	191,645	6,742,400	6,934,045	7,242,049
Supplies, repairs and maintenance	1,107,109	25,442,836	26,549,945	26,723,524
Contractual services	7,187,864	18,288,199	25,476,063	28,951,469
Directors' fees	31,981	109,332	141,313	154,870
Meetings and training	19,674	875,191	894,865	1,034,548
Other	73,128	8,363,841	8,436,969	32,952,065
Total operating expenses other than depreciation and amortization	<u>10,113,268</u>	<u>127,971,836</u>	<u>138,085,104</u>	<u>164,556,486</u>
Operating income (loss) before depreciation and amortization	(3,530,143)	91,132,642	87,602,499	42,760,559
Depreciation and amortization	<u>6,210,036</u>	<u>45,825,760</u>	<u>52,035,796</u>	<u>32,520,010</u>
Operating income (loss)	<u>(9,740,179)</u>	<u>45,306,882</u>	<u>35,566,703</u>	<u>10,240,549</u>
Non-operating revenues:				
Property taxes	2,208,904	62,550,191	64,759,095	66,426,931
Investment and interest income (loss)	1,348,811	17,816,880	19,165,691	14,835,561
Emmission Reduction Credit Sales	90,600	4,439,400	4,530,000	530,750
Other	16,780	2,392,675	2,409,455	1,103,485
Total non-operating revenues	<u>3,665,095</u>	<u>87,199,146</u>	<u>90,864,241</u>	<u>82,896,727</u>
Non-operating expenses:				
Interest	-	27,536,714	27,536,714	24,899,193
Feasibility studies	581,558	9,768,441	10,349,999	13,652,434
Capital grants to member agencies	-	1,481,590	1,481,590	189,830
Other	20,418	1,883,821	1,904,239	-
Total non-operating expenses	<u>601,976</u>	<u>40,670,566</u>	<u>41,272,542</u>	<u>38,741,457</u>
Income (loss) before transfer and capital contributions	(6,677,060)	91,835,462	85,158,402	54,395,819
Capital Contributions:				
Capital facilities capacity charges	-	10,332,569	10,332,569	9,834,369
Capital contributions received from (returned to) other agency	(12,739,214)	-	(12,739,214)	8,103,438
Change in net assets	<u>(19,416,274)</u>	<u>102,168,031</u>	<u>82,751,757</u>	<u>72,333,626</u>
Total net assets - beginning	<u>119,893,138</u>	<u>1,228,427,774</u>	<u>1,348,320,912</u>	<u>1,275,987,286</u>
Total net assets - ending	<u>\$ 100,476,864</u>	<u>\$ 1,330,595,805</u>	<u>\$ 1,431,072,669</u>	<u>\$ 1,348,320,912</u>



**ORANGE COUNTY SANITATION DISTRICT**

Schedule of Cash Flows

For the Year Ended June 30, 2010

With Comparative Totals for June 30, 2009

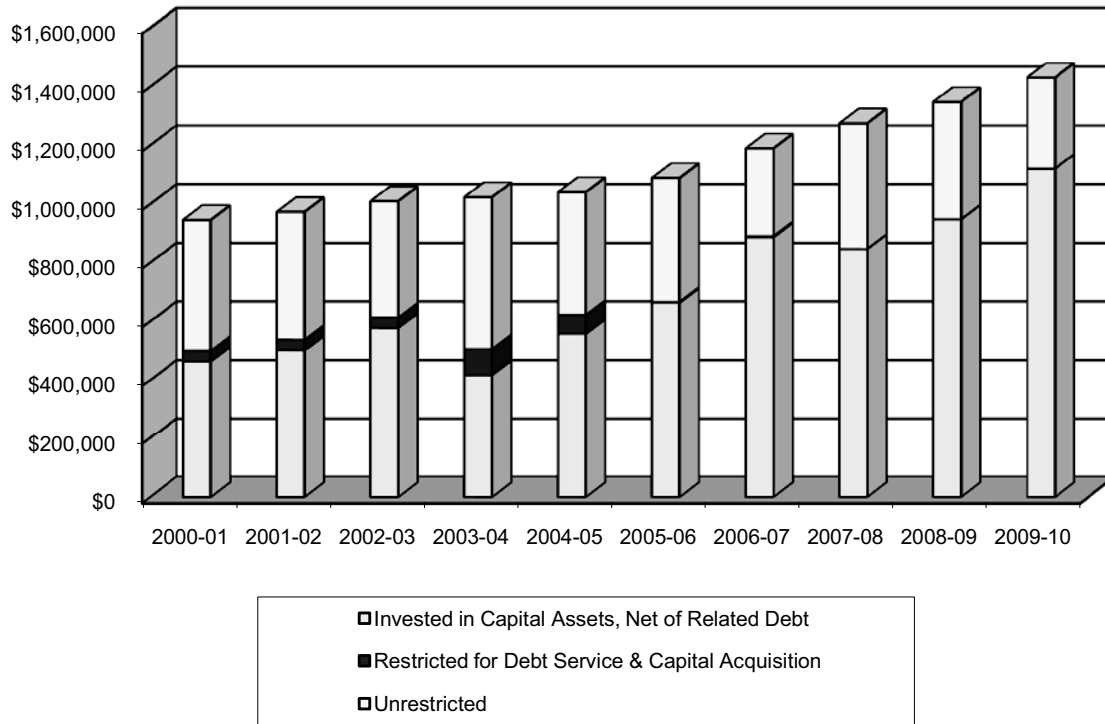
	Revenue	Consolidated	Eliminations	Totals	
	Area No. 14	Revenue Area		2010	2009
<b>Cash flows from operating activities:</b>					
Receipts from customers and users	\$ 17,745,545	\$ 224,926,261	\$ -	\$ 242,671,806	\$ 244,803,212
Payments to employees	(1,533,848)	(68,762,197)	-	(70,296,045)	(65,495,757)
Payments to suppliers	(8,572,846)	(72,397,941)	-	(80,970,787)	(115,054,877)
Net cash provided by operations	7,638,851	83,766,123	-	91,404,974	64,252,578
<b>Cash flows from noncapital financing activities:</b>					
Proceeds from property taxes	2,208,904	63,731,748	-	65,940,652	66,501,391
Grants to member agencies	-	(1,481,590)	-	(1,481,590)	(189,830)
Net cash provided by noncapital financing activities	2,208,904	62,250,158	-	64,459,062	66,311,561
<b>Cash flows from capital and related financing activities:</b>					
Capital facilities capacity charges	-	9,724,170	-	9,724,170	10,733,265
Additions to property, plant and equipment	12,452,304	(227,548,659)	(36,023,395)	(251,119,750)	(290,787,719)
Disposal of property, plant, and equipment	-	(23,284,181)	23,284,181	-	-
Additions to other assets	144,155	-	(144,155)	-	-
Disposal of other assets	-	(144,155)	144,155	-	-
Interest paid	-	(43,055,105)	-	(43,055,105)	(36,301,490)
Principal payments on certificates of participation	-	(200,145,000)	-	(200,145,000)	(244,805,000)
Proceeds from certificates of participation issuance	-	247,740,402	-	247,740,402	408,636,386
Certificates of participation issuance costs	-	(554,219)	-	(554,219)	(775,121)
Proceeds from capital contributions	(12,739,214)	-	12,739,214	-	8,103,438
Net cash provided (used) by capital and related financing activities	(142,755)	(237,266,747)	-	(237,409,502)	(145,196,241)
<b>Cash flows from investing activities:</b>					
Proceeds from the sale of investments	409,801,896	3,162,547,517	-	3,572,349,413	4,298,378,906
Purchases of investments	(417,209,513)	(3,059,536,427)	-	(3,476,745,940)	(4,347,133,227)
Interest received	626,940	13,730,503	-	14,357,443	16,388,243
Net cash provided (used) by investing activities	(6,780,677)	116,741,593	-	109,960,916	(32,366,078)
Net increase (decrease) in cash and cash equivalents	2,924,323	25,491,127	-	28,415,450	(46,998,180)
Cash and cash equivalents, beginning of year	2,864,450	104,887,298	-	107,751,748	154,749,928
Cash and cash equivalents, end of year	\$ 5,788,773	\$ 130,378,425	\$ -	\$ 136,167,198	\$ 107,751,748
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>					
Operating income (loss)	\$ (9,740,179)	\$ 45,306,882	\$ -	\$ 35,566,703	\$ 10,240,549
Adjustments to reconcile operating income (loss) to net cash provided by operations:					
Depreciation and amortization	6,210,036	45,825,760	-	52,035,796	32,520,010
Bad debt expense	(1,228)	(194,753)	-	(195,981)	26,606
Other non-operating revenues and expenses	106,567	6,789,152	-	6,895,719	1,225,332
(Increase)/decrease in operating assets:					
Accounts receivable	1,228	(1,010,292)	-	(1,009,064)	25,993
Due from other governmental agencies	-	-	-	-	4,913,701
Inventories	8,615	(1,363,046)	-	(1,354,431)	(191,636)
Prepaid and other assets	-	(2,518,658)	-	(2,518,658)	(12,379,924)
Increase/(decrease) in operating liabilities:					
Accounts payable	-	(10,364,801)	-	(10,364,801)	2,879,030
Accrued expenses	-	(1,091,531)	-	(1,091,531)	(543,575)
Retentions payable	-	522,094	-	522,094	(6,720,864)
Due to other governmental agency	11,053,812	-	-	11,053,812	30,999,633
Pension/OPEB payable	-	755,295	-	755,295	771,789
Compensated absences	-	846,045	-	846,045	650,971
Other payable	-	308,546	-	308,546	323,801
Claims and judgments	-	(44,570)	-	(44,570)	(488,838)
Net cash provided by operations	\$ 7,638,851	\$ 83,766,123	\$ -	\$ 91,404,974	\$ 64,252,578
<b>Noncash Activities:</b>					
Unrealized gain (loss) on the fair value of investments	\$ 721,872	\$ 5,455,562	\$ -	\$ 6,177,434	\$ (153,923)
Capital contributions from other agency	(12,739,214)	-	-	(12,739,214)	2,456,540

**ORANGE COUNTY SANITATION DISTRICT  
STATISTICAL SECTION**

This part of the comprehensive annual financial report of the Orange County Sanitation District (OCSD) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about OCSD's overall financial health.

<u>Contents</u>	<u>Pages</u>
Financial Position and Trends These schedules contain current and trend information to help the reader understand OCSD's financial position and how OCSD's financial performance and well-being have changed over time.	42 - 46
Revenue Capacity These schedules contain information to help the reader assess OCSD's most significant revenue source of sewer service fees.	47 - 49
Debt Capacity These schedules present information to help the reader assess the affordability of OCSD's current levels of outstanding debt and OCSD's ability to issue additional debt in the future. All of OCSD's debt is recorded in a proprietary fund; consequently, many of the schedules which are applicable to governmental funds are not presented.	50 - 53
Operating Information  These schedules contain data to help the reader understand how the information in OCSD's financial report relates to the services it provides and the activities it performs.	54 - 57
Demographic and Economic Factors These schedules offer demographic information to help the reader understand the environment within which OCSD's financial activities take place.	58 - 61

**ORANGE COUNTY SANITATION DISTRICT**  
 Net Assets by Component  
 (Dollars in Thousands)  
 Last Ten Fiscal Years (Note 1)

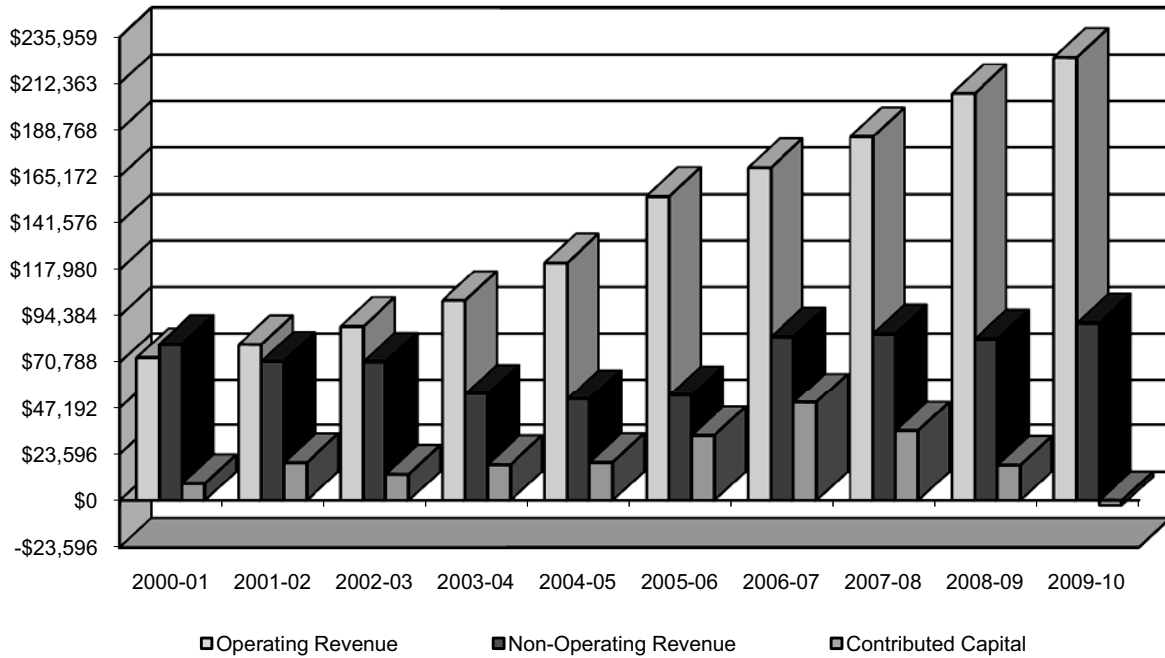


<u>Fiscal Year</u>	<u>Invested in Capital Assets, Net of Related Debt</u>	<u>Restricted for Debt Service &amp; Capital Acquisition</u>	<u>Unrestricted</u>	<u>Total Net Assets</u>
2000-01	\$ 463,935	\$ 36,468	\$ 446,558	\$ 946,961
2001-02	501,997	36,070	435,906	973,973
2002-03	578,647	35,182	396,518	1,010,347
2003-04	418,267	88,519	517,346	1,024,132
2004-05	558,391	64,514	418,342	1,041,247
2005-06	664,060	3,003	422,036	1,089,099
2006-07	886,463	3,904	299,370	1,189,737
2007-08	847,426	-	428,561	1,275,987
2008-09	948,869	-	399,452	1,348,321
2009-10	1,121,057	-	310,016	1,431,073

Note 1: Net Assets are calculated as a result of GASB 34, which was implemented in FY 2001-2, retrospective to 2000-01.

Source: Orange County Sanitation District's Financial Management Division.

**ORANGE COUNTY SANITATION DISTRICT**  
**Revenues and Gross Capital Contributions by Source**  
(Dollars in Thousands)  
Last Ten Fiscal Years

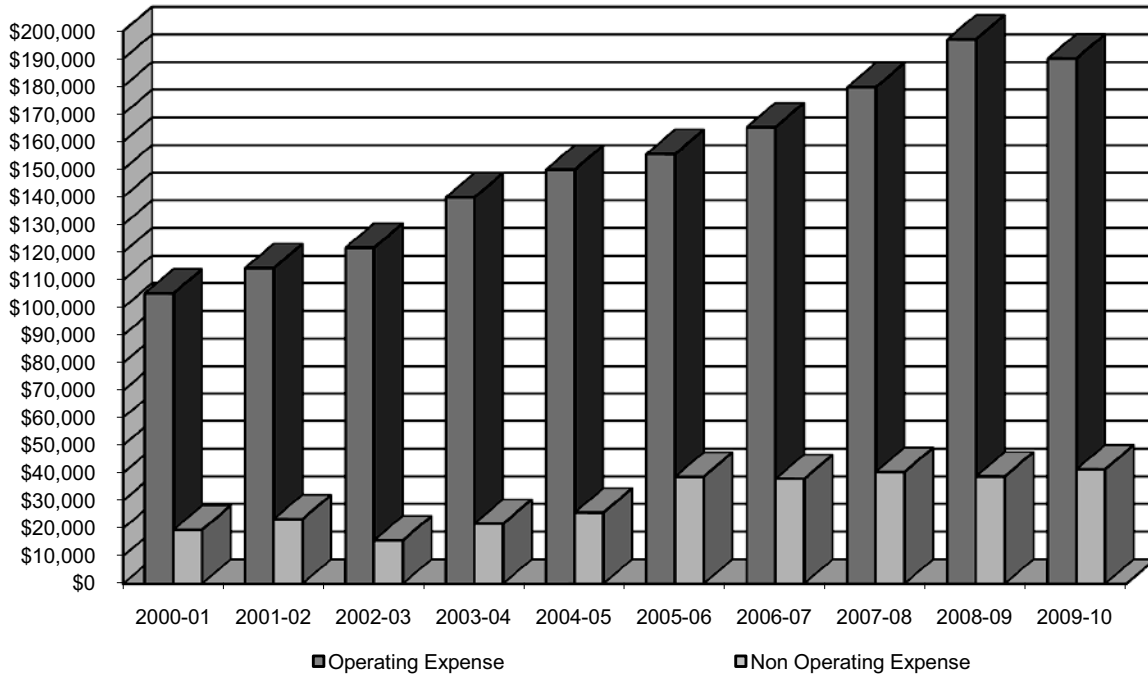


Fiscal Year	Operating Revenue			Non-Operating Revenue			Total Non-Operating	Capital Contributions
	Service Charges	Permit & Inspection Fees	Total Operating	Property Taxes	Interest	Other		
2000-01	\$ 72,566	\$ 688	\$ 73,254	\$ 38,411	\$ 39,868	\$ 1,835	\$ 80,114	\$8,603
2001-02	79,609	396	80,005	41,140	28,073	2,202	71,415	19,163
2002-03	88,640	524	89,164	44,591	25,889	706	71,186	13,312
2003-04	101,995	332	102,327	46,943	6,786	928	54,657	18,243
2004-05	120,917	498	121,415	35,764	15,118	1,051	51,933	19,350
2005-06	154,291	874	155,165	39,958	10,426	3,477	53,861	32,990
2006-07	167,790	1,866	169,656	60,565	22,243	1,068	83,876	50,207
2007-08	184,180	1,196	185,376	65,210	20,235	13	85,458	35,408
2008-09	206,422	895	207,317	66,427	14,836	1,634	82,897	17,937
2009-10	225,059	629	225,688	64,759	19,166	6,939	90,864	(2,406)

Source: Orange County Sanitation District's Financial Management Division.

**ORANGE COUNTY SANITATION DISTRICT**

Expenses by Type  
(Dollars in Thousands)  
Last Ten Fiscal Years

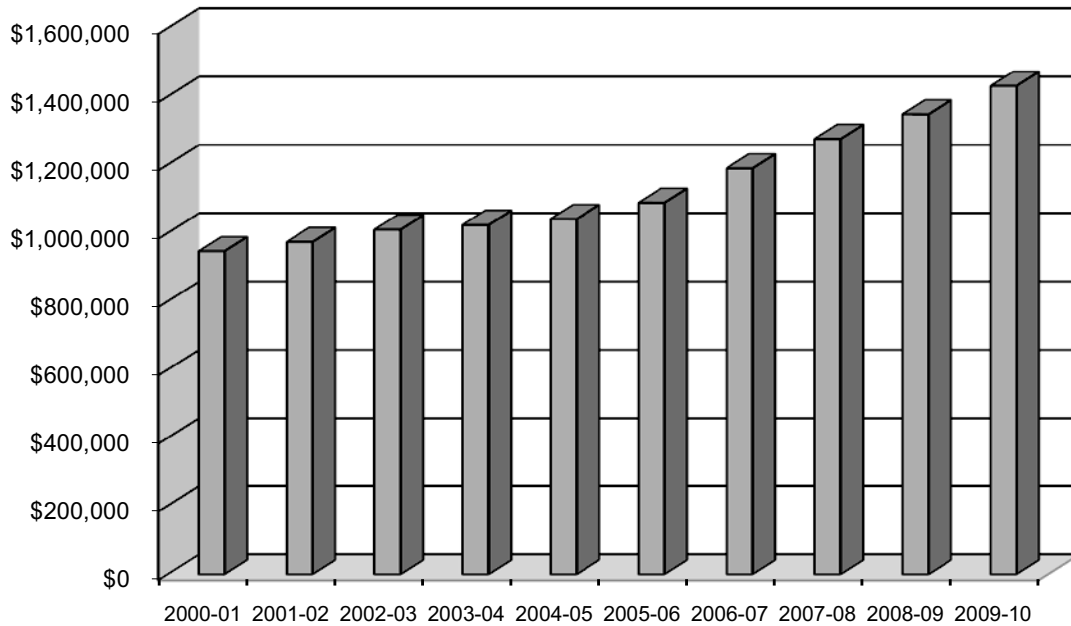


Fiscal Year	Operating				Total Operating	Non - Operating		Total Non-Operating
	Salaries & Benefits	Utilities	Maint & Other	Depr & Amort		Interest Expense	Other	
2000-01	\$ 33,734	\$ 5,524	\$ 23,062	\$ 42,797	\$ 105,117	\$ 17,923	\$ 1,479	\$ 19,402
2001-02	35,629	4,967	27,967	45,703	114,266	14,406	8,896	23,302
2002-03	38,733	4,622	36,314	41,966	121,635	12,731	2,922	15,653
2003-04	48,711	5,408	41,284	44,412	139,815	15,524	6,102	21,626
2004-05	53,048	6,473	42,325	48,095	149,941	17,470	8,172	25,642
2005-06	53,246	7,563	44,823	49,887	155,519	20,078	18,567	38,645
2006-07	57,802	8,072	46,281	53,111	165,266	21,747	16,089	37,836
2007-08	67,629	8,092	56,169	47,767	179,657	22,517	17,818	40,335
2008-09	67,498	7,242	89,816	32,520	197,076	24,899	13,842	38,741
2009-10	69,652	6,934	61,499	52,036	190,121	27,537	13,736	41,273

Source: Orange County Sanitation District's Financial Management Division.

**ORANGE COUNTY SANITATION DISTRICT**

Change in Net Assets  
(Dollars in Thousands)  
Last Ten Fiscal Years (Note 1)



Ending Net Assets by Fiscal Year

<b>Fiscal Year</b>	<b>Total Revenues</b>	<b>Total Expenses</b>	<b>Change in Net Assets</b>	<b>Beginning Net Assets</b>	<b>Ending Net Assets</b>
2000-01	\$ 161,971	\$ 133,543	\$ 28,428	\$ 918,533	\$ 946,961
2001-02	164,580	137,568	27,012	946,961	973,973
2002-03	173,662	137,288	36,374	973,973	1,010,347
2003-04	175,227	161,441	13,786	1,010,347	1,024,133
2004-05	192,698	175,583	17,115	1,024,133	1,041,248
2005-06	242,016	194,164	47,852	1,041,248	1,089,100
2006-07	303,739	203,102	100,637	1,089,100	1,189,737
2007-08	306,242	219,992	86,250	1,189,737	1,275,987
2008-09	308,151	235,817	72,334	1,275,987	1,348,321
2009-10	314,146	231,394	82,752	1,348,321	1,431,073

Note 1: Net Assets are calculated as a result of GASB 34, which was implemented in FY 2001-02, retrospective to 2000-01.

Source: Orange County Sanitation District's Financial Management Division.

**ORANGE COUNTY SANITATION DISTRICT**  
Cash and Investment Reserve Balances  
(Dollars in Millions)  
Last Ten Fiscal Years

Fiscal Year	Cash Flow Contingency	Self- Insurance	Capital Improvement Program	Debt Service Requirements	Total
2000-01	\$ 77	\$ 56	\$ 311	\$ 33	\$ 477
2001-02	70	57	303	35	465
2002-03	100	57	237	33	427
2003-04	71	57	390	88	606
2004-05	71	57	242	65	472
2005-06	132	57	196	105	490
2006-07	132	57	104	79	372
2007-08	149	57	219	108	533
2008-09	172	57	172	133	534
2009-10	185	57	102	129	473

**Notes:**

The Cash Flow Contingency Reserve is to fund operations, maintenance, and certificates of participation debt service expenses for the first half of the fiscal year, prior to the receipt of the first installment of the property tax allocation and sewer service user fees.

The Self-Insurance Reserve is to provide requirements for property damage including fire, flood and earthquake, general liability and workers' compensation.

The Capital Improvement Program Reserve is to fund annual increments of the capital improvement program with a target level at one half of the average annual capital improvement program through the year 2020.

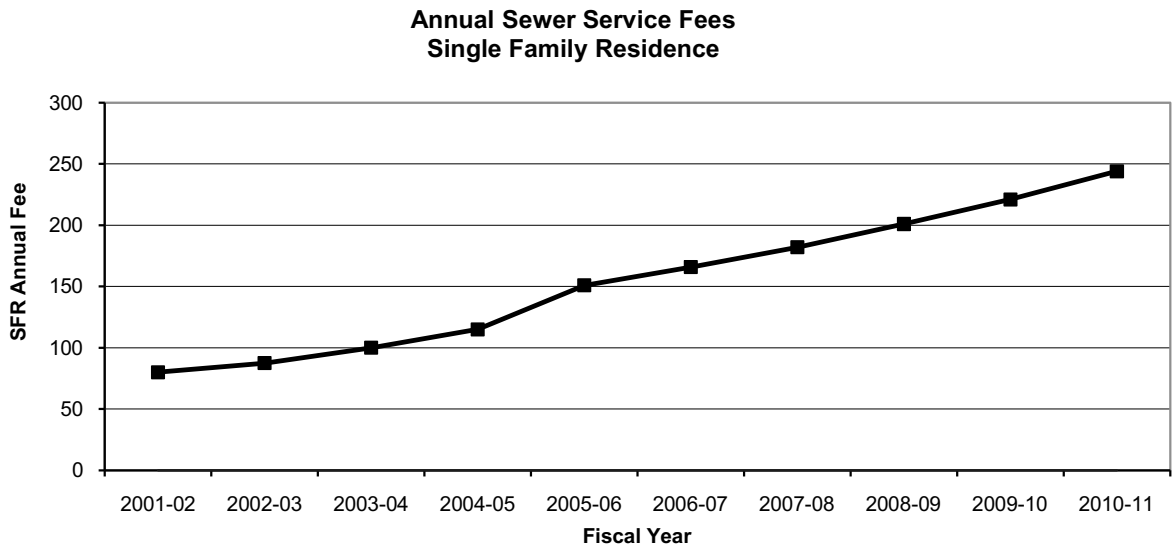
The Debt Service Required Reserves are monies held and controlled by a trustee pursuant to the provisions of certificates of participation issues, and the monies are not available for the general needs of the District.

Source: Orange County Sanitation District's Financial Management Division.

**ORANGE COUNTY SANITATION DISTRICT**  
 Sewer Service Fees  
 Single Family Residence Rate  
 Last Nine Fiscal Years and Next Fiscal Year

Sewer service fees are comprised of three categories: residential customers, commercial customers, and industrial customers. Although the majority of sewer service fee revenues are from residential and commercial customers (see the schedule of Number of Accounts and Revenues by Customer Class), the fee paid by each residential and commercial customer is less than the individual fees paid by industrial customers. The rates for commercial and industrial customers are derived from the base sewer service fee charged for a single-family residence and are based on the type of business and the strength and volume of waste that is discharged into the sewer system. Due to the complexity of the rate structure for commercial and industrial customers and since the rates are derivatives of the single-family residence rate, only the single-family residence rate is presented within the statistical section.

<u>Fiscal Year</u>	<u>Sewer Service Charge</u>
2001-02	\$ 80.00
2002-03	87.50
2003-04	100.00
2004-05	115.00
2005-06	151.00
2006-07	165.80
2007-08	182.00
2008-09	201.00
2009-10	221.00
2010-11	244.00

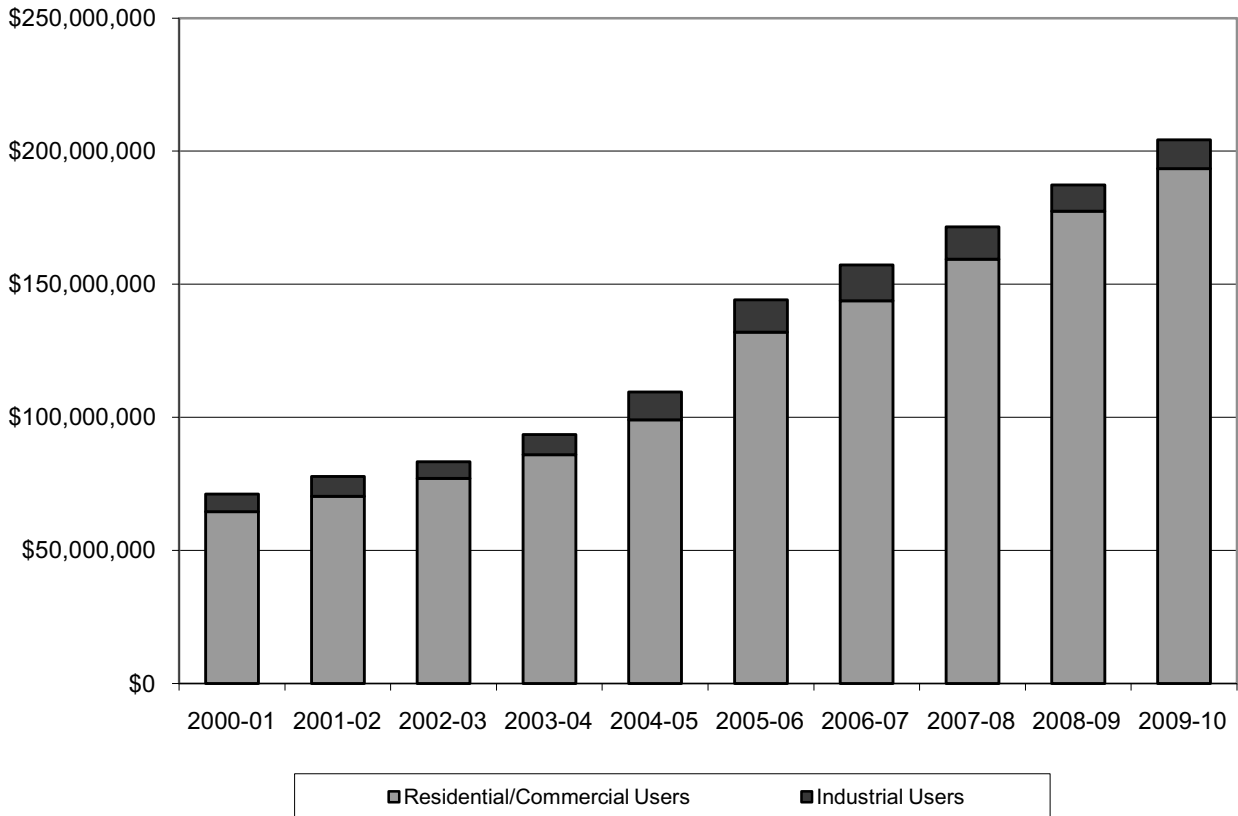


Source: Orange County Sanitation District's Financial Management Division.



**ORANGE COUNTY SANITATION DISTRICT**  
 Number of Accounts and Revenues by Customer Class  
 (Dollars in Millions)  
 Last Ten Fiscal Years

Fiscal	Residential/Commercial			Industrial		
	Number of Equivalent Single-Family Dwellings	Total Sewer Svc. Charge Revenue	Percentage of Sewer Service Charge Revenues	Number of Customer Accounts	Total Sewer Svc. Charge Revenue	Percentage of Sewer Service Charge Revenues
2000-01	883,603	64.5	91%	596	6.6	9%
2001-02	898,031	70.3	90%	573	7.5	10%
2002-03	897,757	77.0	92%	603	6.3	8%
2003-04	860,156	86.0	92%	530	7.5	8%
2004-05	860,634	99.0	90%	568	10.5	10%
2005-06	872,859	132.0	92%	557	12.2	8%
2006-07	867,035	143.8	91%	531	13.4	9%
2007-08	875,739	159.4	93%	520	12.1	7%
2008-09	882,747	177.4	95%	515	9.9	5%
2009-10	875,442	193.5	95%	487	10.8	5%



Source: Orange County Sanitation District's Financial Management Division.

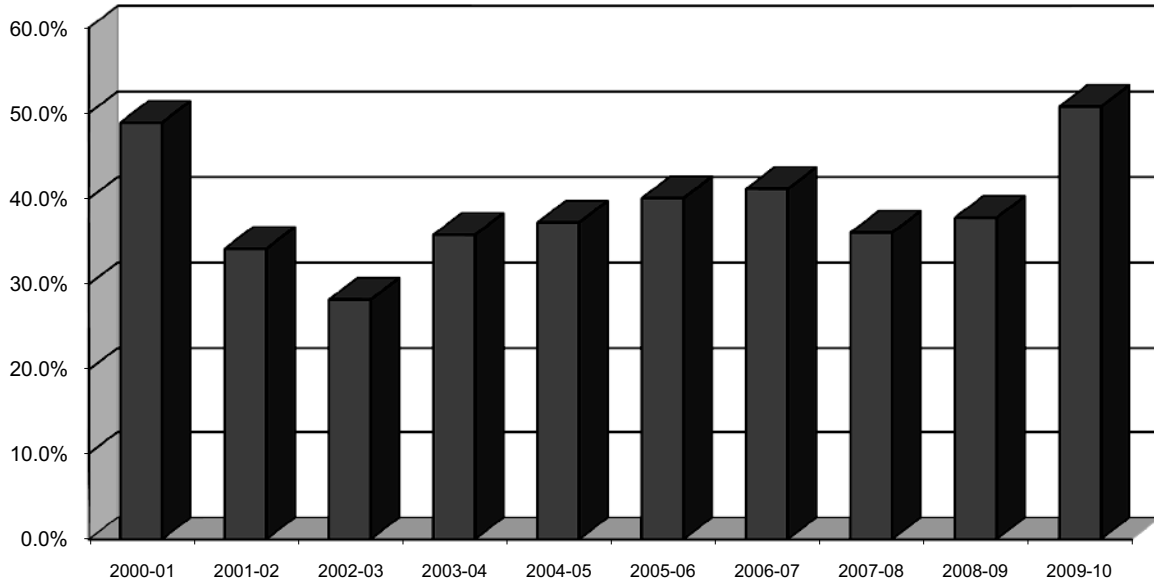
**ORANGE COUNTY SANITATION DISTRICT**  
Principal Sewer Service Customers  
For the Current Fiscal Year and Nine Years Ago

<u>User</u>	<u>Fiscal Year Ended 6/30/10</u>			<u>Fiscal Year Ended 6/30/01</u>		
	<u>Industrial Permittee Service Charges</u>	<u>Rank</u>	<u>% to Total Service Charge Revenue</u>	<u>Industrial Permittee Service Charges</u>	<u>Rank</u>	<u>% to Total Service Charge Revenue</u>
Kimberly-Clark Worldwide, Inc.	\$1,325,796	1	0.59%	\$193,460	7	0.27%
MCP Foods, Inc.	1,313,284	2	0.58%	245,731	5	0.34%
Alstyle Apparel-A&G Inc.	1,019,603	3	0.45%	329,272	3	0.45%
Stremicks Heritage Foods, LLC	629,473	4	0.28%	359,881	2	0.50%
House Foods America Corp.	534,052	5	0.24%	211,771	6	0.29%
Pepsi-Cola Bottling Group	419,539	6	0.19%			
Ameripec Inc.	410,545	7	0.18%			
Pulmuone Wildwood, Inc.	409,974	8	0.18%			
Morningstar Foods, LLC	360,198	9	0.16%			
Angelica Textile Services	321,568	10	0.14%			
Disneyland, Inc.				430,386	1	0.59%
Sundor Brands, Inc.				301,700	4	0.42%
Nor-Cal Beverage Co. (Tetra)				181,050	8	0.25%
Knotts Berry Farm Foods				180,548	9	0.25%
Nor-Cal Beverage Co. (Main)				176,972	10	0.24%
	<u>\$6,744,031</u>		<u>2.99%</u>	<u>\$2,610,771</u>		<u>3.60%</u>

Although the majority of sewer service fee revenues are from residential and commercial customers (see the schedule of Number of Accounts and Revenues by Customer Class), the fee paid by each residential and commercial customer is less than the individual fees paid by industrial customers. Consequently, this schedule shows the largest sewer service fee customers.

Source: Orange County Sanitation District's Financial Management Division.

**ORANGE COUNTY SANITATION DISTRICT**  
Ratio of Annual Debt Service to Total Expenses  
(Dollars in Thousands)  
Last Ten Fiscal Years



<u>Fiscal Year</u>	<u>Principal (1)</u>	<u>Interest</u>	<u>Total Debt Service (3)</u>	<u>Total Operating Expenses (2)</u>	<u>Ratio of Debt Service to Total Operating Expenses</u>
2000-01	\$ 13,790	\$ 16,690	\$ 30,480	\$ 62,320	48.91%
2001-02	10,370	13,051	23,421	68,563	34.16
2002-03	11,025	11,433	22,458	79,669	28.19
2003-04	11,610	22,508	34,118	95,403	35.76
2004-05	12,040	25,871	37,911	101,846	37.22
2005-06	12,755	29,563	42,318	105,632	40.06
2006-07	13,465	32,673	46,138	112,155	41.14
2007-08	11,025	36,484	47,509	131,890	36.02
2008-09	21,305	40,840	62,145	164,556	37.77
2009-10	24,030	46,052	70,082	138,085	50.75

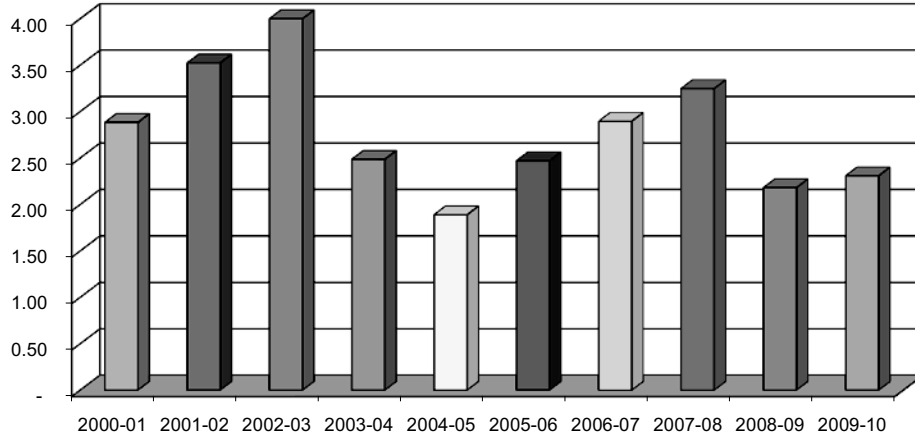
**Notes**

- (1) - Excludes principal reductions due to advanced refunding.
- (2) - Excludes depreciation and amortization expense.
- (3) - All debt consists of certificates of participation.

Source: Orange County Sanitation District's Financial Management Division.

**ORANGE COUNTY SANITATION DISTRICT**  
Debt Coverage Ratios  
(Dollars in Millions)  
Last Ten Fiscal Years

The Orange County Sanitation District has no legal debt limits as imposed by State legislation. The District does have contractual covenants within the existing Certificates of Participation indenture agreements which require minimum coverage ratios of 1.25. The coverage ratio is calculated as the ratio of net annual revenues available for debt service payments to total annual debt service requirements.



	Fiscal Year Ending June 30,									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Operating &amp; Non-operating Revenues:</b>										
Service Charges, Net of Refunds-Regional	\$ 64.5	\$ 70.3	\$ 77.0	\$ 86.0	\$ 99.0	\$ 132.0	\$ 143.8	\$ 159.4	\$ 177.4	\$ 193.5
Service Charges, Net of Refunds-Local	-	-	-	-	-	-	-	-	5.6	5.6
Industrial Sewer Service Charges	6.6	7.5	6.3	7.5	10.5	12.2	13.4	12.1	9.9	10.8
Revenue Area No. 14 Fees	2.0	2.2	3.2	5.8	6.9	5.3	5.2	7.1	10.3	10.2
Ad Valorem Taxes	38.4	41.1	44.6	46.9	35.8	40.0	60.6	65.2	66.4	64.8
Interest Earnings	39.4	27.8	25.9	6.8	15.1	10.4	22.2	20.2	14.8	19.2
Other Revenues	2.5	2.5	13.5	13.0	6.1	9.2	8.3	6.9	5.8	12.5
Total Revenues	153.4	151.4	170.5	166.0	173.4	209.1	253.5	270.9	290.2	316.6
Operating Expenses (1)	62.3	68.6	79.7	95.4	101.8	105.6	112.2	131.9	164.6	138.1
Net Revenues	<u>\$ 91.1</u>	<u>\$ 82.8</u>	<u>\$ 90.8</u>	<u>\$ 70.6</u>	<u>\$ 71.6</u>	<u>\$ 103.5</u>	<u>\$ 141.3</u>	<u>\$ 139.0</u>	<u>\$ 125.6</u>	<u>\$ 178.5</u>
<b>Debt Service Requirements</b>										
Principal Payments	13.8	10.4	11.0	11.6	12.0	12.8	13.5	11.0	21.3	34.2
Interest Payments	17.8	13.1	11.7	16.8	25.9	29.1	35.3	31.8	36.3	43.1
Total Debt Service Requirements	<u>\$ 31.6</u>	<u>\$ 23.5</u>	<u>\$ 22.7</u>	<u>\$ 28.4</u>	<u>\$ 37.9</u>	<u>\$ 41.9</u>	<u>\$ 48.8</u>	<u>\$ 42.8</u>	<u>\$ 57.6</u>	<u>\$ 77.3</u>
Coverage Ratios	<u>2.88</u>	<u>3.52</u>	<u>4.00</u>	<u>2.49</u>	<u>1.89</u>	<u>2.47</u>	<u>2.90</u>	<u>3.25</u>	<u>2.18</u>	<u>2.31</u>
Ending Reserves (2)	<u>\$ 444.0</u>	<u>\$ 430.0</u>	<u>\$ 394.0</u>	<u>\$ 518.0</u>	<u>\$ 407.0</u>	<u>\$ 385.0</u>	<u>\$ 293.0</u>	<u>\$ 425.0</u>	<u>\$ 401.0</u>	<u>\$ 344.0</u>

**Notes**

- (1) - Operating expenses exclude depreciation and amortization expenses.
- (2) - Excludes debt service reserves in accordance with the District's reserve policy.

Source: Orange County Sanitation District's Financial Management Division.

**ORANGE COUNTY SANITATION DISTRICT**  
**Computation of Direct and Overlapping Debt**  
**June 30, 2010**

2009-10 Assessed Valuation (Land & Improvements Only):

\$266,178,033,058 (after deducting \$38,977,151,141 Redevelopment Incremental Valuation)

OVERLAPPING TAX AND ASSESSMENT DEBT (Based on redevelopment adjusted all property assessed valuation of \$271,322,083,143):

	Total Debt <u>6/30/10</u>	<u>% Applicable (1)</u>	District's Share of <u>Debt 6/30/10</u>
Metropolitan Water District of Southern California	\$264,220,000	14.976%	\$ 39,569,587
Coast Community College District	334,718,867	99.478	332,971,635
North Orange County Joint Community College District	221,604,001	96.877	214,683,308
Rancho Santiago Community College District	313,655,747	98.989	310,484,687
Brea-Olinda and Laguna Beach Unified School Districts	56,929,029	99.942 & 15.247	28,438,490
Los Alamitos Unified School District School Facilities Improvement District No. 1	27,000,000	98.933	26,711,910
Newport Mesa Unified School District	163,568,480	100.	163,568,480
Placentia-Yorba Linda Unified School District	239,731,621	98.601	236,377,776
Saddleback Valley Unified School District	137,690,000	12.391	17,061,168
Santa Ana Unified School District	272,698,366	100.	272,698,366
Tustin Unified School District School Facilities Improvement District No. 2002-1	62,705,295	99.947	62,672,061
Tustin Unified School District School Facilities Improvement District No. 2008-1	25,000,000	99.947	24,986,750
Anaheim Union High School District	117,363,955	100.	117,363,955
Fullerton Joint Union High School District	59,262,910	90.043	53,362,102
Huntington Beach Union High School District	229,759,998	98.850	227,117,758
School Districts	302,072,027	97.131-100.	301,234,529
City of Anaheim	4,255,000	99.073	4,215,556
Irvine Ranch Water District Improvement Districts	388,298,721	Various	388,173,418
Rossmoor Community Services District Special Tax Obligations	525,000	100.	525,000
Bonita Canyon Community Facilities District No. 98-1	41,275,000	100.	41,275,000
Irvine Unified School District Community Facilities Districts	434,405,619	99.998-100.	434,403,688
Tustin Unified School District Community Facilities Districts	241,890,345	100.	241,890,345
Orange County Community Facilities District No. 87-4	51,544,406	99.959	51,523,273
Other Community Facilities Districts	386,804,000	99.051-100.	386,725,660
Orange County Assessment Districts	108,827,296	100.	108,827,296
City of Irvine 1915 Act Bonds	866,534,968	100.	866,534,968
City of Tustin 1915 Act Bonds	44,779,000	100.	44,779,000
Other 1915 Act bonds	23,874,652	100.	23,874,652
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>			<b>\$5,022,050,418</b>

DIRECT AND OVERLAPPING GENERAL FUND DEBT:

Orange County General Fund Obligations	\$391,027,000	72.453%	\$ 283,310,792
Orange County Pension Obligations	59,333,382	72.453	42,988,815
Orange County Board of Education Certificates of Participation	19,230,000	72.453	13,932,712
South Orange County Community College District Certificates of Participation	18,845,000	36.854	6,945,136
Brea-Olinda Unified School District Certificates of Participation	27,795,000	99.942	27,778,879
Orange Unified School District Certificates of Participation and Benefit Obligations	142,660,000	97.915	139,685,539
Placentia-Yorba Linda Unified School District Certificates of Participation	86,810,315	98.601	85,595,839
Santa Ana Unified School District Certificates of Participation	53,953,747	100.	53,953,747
Other Unified School District Certificates of Participation	37,179,885	Various	36,939,496
Union High School District Certificates of Participation	122,501,090	Various	119,596,930
School District Certificates of Participation	61,485,000	Various	61,166,748
City of Anaheim General Fund Obligations	643,902,465	99.073	637,933,489
City of Costa Mesa General Fund Obligations	40,440,000	100.	40,440,000
City of Garden Grove General Fund Obligations	30,490,000	100.	30,490,000
City of Huntington Beach General Fund and Judgment Obligations	67,415,000	99.974	67,397,472
City of La Habra General Fund Obligations	20,405,000	100.	20,405,000
City of Santa Ana General Fund Obligations	106,220,000	100.	106,220,000
Other City General Fund Obligations	146,568,843	Various	122,374,895
<b>Orange County Sanitation District</b>	<b>0</b>	<b>100.</b>	<b>0</b> (2)
Irvine Ranch Water District Certificates of Participation	85,145,000	89.916	76,558,978
Municipal Water District of Orange County Water Facilities Corporation	15,965,000	67.529	10,781,005
Yorba Linda County Water District Certificates of Participation	9,425,000	97.595	9,198,329
Orange County Fire Authority	3,590,000	51.765	1,858,364
<b>TOTAL GROSS OVERLAPPING GENERAL FUND DEBT</b>			<b>\$1,995,552,165</b>
Less: City of Anaheim self-supporting obligations			625,063,906
Other City self-supporting obligations			33,024,268
MWDOC Water Facilities Corporation (100% self-supporting)			10,781,005
<b>TOTAL NET OVERLAPPING GENERAL FUND DEBT</b>			<b>\$1,326,682,986</b>
<b>GROSS COMBINED TOTAL DEBT</b>			<b>\$7,017,602,583</b> (3)
<b>NET COMBINED TOTAL DEBT</b>			<b>\$6,348,733,404</b>

- (1) Percentage of overlapping agency's redevelopment adjusted all property assessed valuation (\$271,322,083,143) located within boundaries of the district.
- (2) Excludes wastewater revenue certificates of participation. Previously classified certificates of participation have been reclassified as district revenue supported issues and are no longer included as direct debt in the debt statement.
- (3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to:	Total Overlapping Tax and Assessment Debt	Gross Combined Total Debt	Net Combined Total Debt
Adjusted Land and Improvement Assessed Valuation	1.65%	2.64%	2.39%
Adjusted All Property Assessed Valuation	N/A	2.59%	2.34%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: \$0  
Source: California Municipal Statistics

**ORANGE COUNTY SANITATION DISTRICT**

Ratios of Outstanding Debt  
Last Ten Fiscal Years

<b>Fiscal Year</b>	<b>(5) Total Outstanding COP Debt</b>	<b>(3) Median Family Income (1)</b>	<b>Debt as a Percentage of Median Family Income</b>	<b>(4) Population Estimate (2)</b>	<b>Debt per Capita</b>
2000-01	\$ 386,370,000	\$ 73,700	0.019%	2,400,425	\$ 160.96
2001-02	376,000,000	75,600	0.020%	2,336,400	160.93
2002-03	364,975,000	70,000	0.019%	2,408,050	151.56
2003-04	633,365,000	74,200	0.012%	2,441,350	259.43
2004-05	621,325,000	75,700	0.012%	2,467,850	251.77
2005-06	808,570,000	78,300	0.010%	2,481,540	325.83
2006-07	801,785,000	78,700	0.010%	2,505,180	320.05
2007-08	1,082,420,000	84,100	0.008%	2,522,820	429.05
2008-09	1,241,530,000	86,100	0.007%	2,539,990	488.79
2009-10	1,287,250,000	87,200	0.007%	2,563,170	502.21

**Notes & Data Sources**

(1) - Data is for the entire County of Orange.

(2) - Data is for the estimated population served by the Orange County Sanitation District.

(3) - Data Source: U.S. Department of Housing and Urban Development.

(4) - Data Source: Demographic Research Unit, California Department of Finance.

(5) - Data Source: Orange County Sanitation District.

**ORANGE COUNTY SANITATION DISTRICT**  
 Comparison of the Volume of Wastewater Treated  
 With Revenues and Expenses  
 Last Ten Fiscal Years

<b>Fiscal Year</b>	<b>Millions of Gallons of Waste-water Treated Per Day</b>	<b>Collection, Treatment &amp; Disposal Cost per Million Gallons</b>	<b>Total Operating Costs (In Thousands)</b>	<b>Total Non-Operating Costs (In Thousands)</b>	<b>Total Operating Revenues (In Thousands)</b>	<b>Total Non-Operating Revenues (In Thousands)</b>
2000-01	246	647.46	\$ 105,117	\$ 19,402	\$ 73,254	\$ 80,114
2001-02	234	794.05	114,266	23,302	80,005	71,415
2002-03	239	880.25	121,635	15,653	89,164	71,186
2003-04	238	1,068.43	139,815	21,626	102,327	54,657
2004-05	243	1,095.79	149,941	25,642	121,415	51,933
2005-06	235	1,216.77	155,519	38,645	155,165	53,861
2006-07	229	1,268.38	165,266	37,836	169,656	83,876
2007-08	221	1,541.18	179,657	40,335	185,376	85,458
2008-09	211	1,576.67	197,076	38,741	207,317	82,897
2009-10	196	1,588.72	190,121	41,273	225,688	90,864

A Facilities Master Plan to the year 2030 was completed in December 2009 that projects wastewater treatment flows to increase to 279 millions of gallons per day (mgd) in 2020, to 286 mgd in 2025, and to 294 mgd in the year 2030. The anticipated need to meet the projected flows is included in the overall CIP program of \$1.9 billion out to 2019-20.

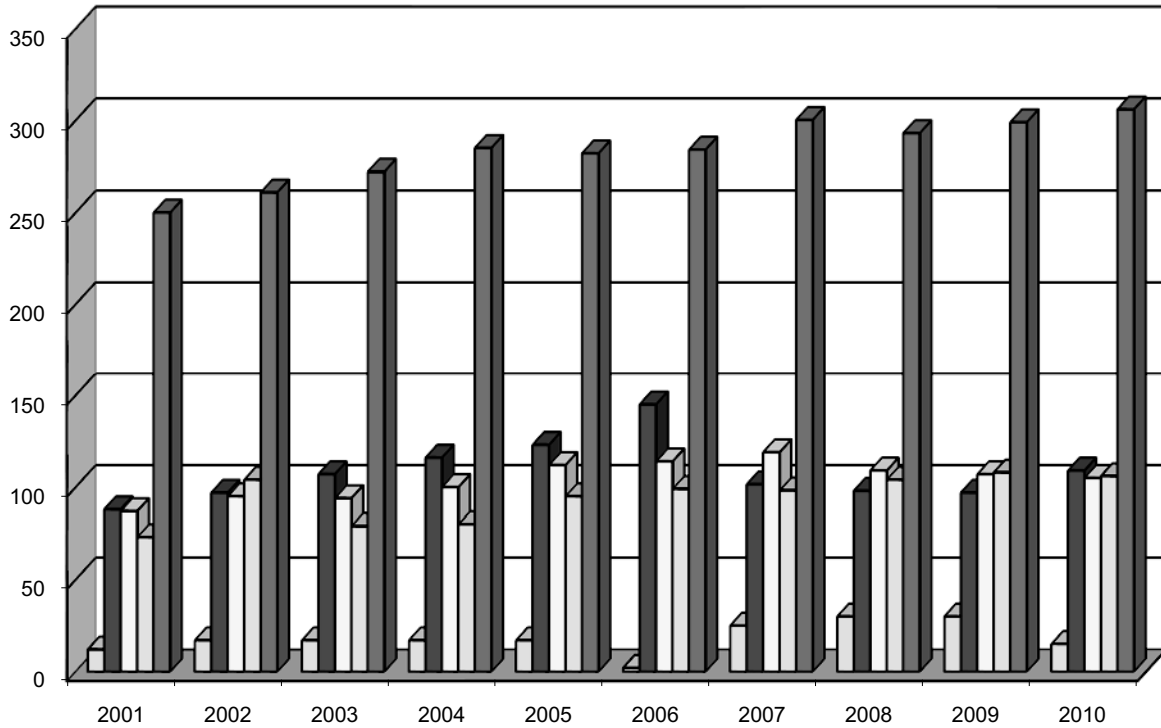
Total expenses in FY 2009-10 increased \$106.9 million, or 85.8 percent since FY 2000-01, primarily as a result of (1) OCSD's decision beginning in FY 2002-03 to maximize existing secondary treatment facilities as OCSD moves from a 50/50 mix of primary and secondary effluent treatment to meeting secondary treatment standards by December 31, 2012, and (2) OCSD's decision to eliminate most bacteria from the ocean outfall discharge by disinfecting the effluent beginning in FY 2002-03 at an additional cost in chemicals of \$7 million annually.

Maintenance, chemicals, utilities, and other operating costs represent 37 percent of the increase, primarily due to the increase in the levels of treatment referred to above. Depreciation expense represents another 9 percent of the increase as a result of the previous expansion in capital facilities and the financing associated with the expansion. In FY 2009-10, personnel expenses rose 3.2 percent over the prior year. This increase is mainly due to increases in health insurance and retirement premiums. The full-time equivalent positions authorized remained constant in FY 2009-10.

As depicted from the chart above, actual wastewater treatment flows have generally remained between 234 mgd and 244 mgd in the past, other than in FY 2000-01 which reached 246 mgd. Due to unusually dry weather conditions during the last four years, FY 2006-07, FY 2007-08, FY 2008-09 and FY 2009-10 had flows of only 229 mgd , 221 mgd, 211 mgd and 196 mgd respectively.

Source: Orange County Sanitation District.

**ORANGE COUNTY SANITATION DISTRICT**  
 Authorized Full-time Equivalents by Function  
 Last Ten Fiscal Years



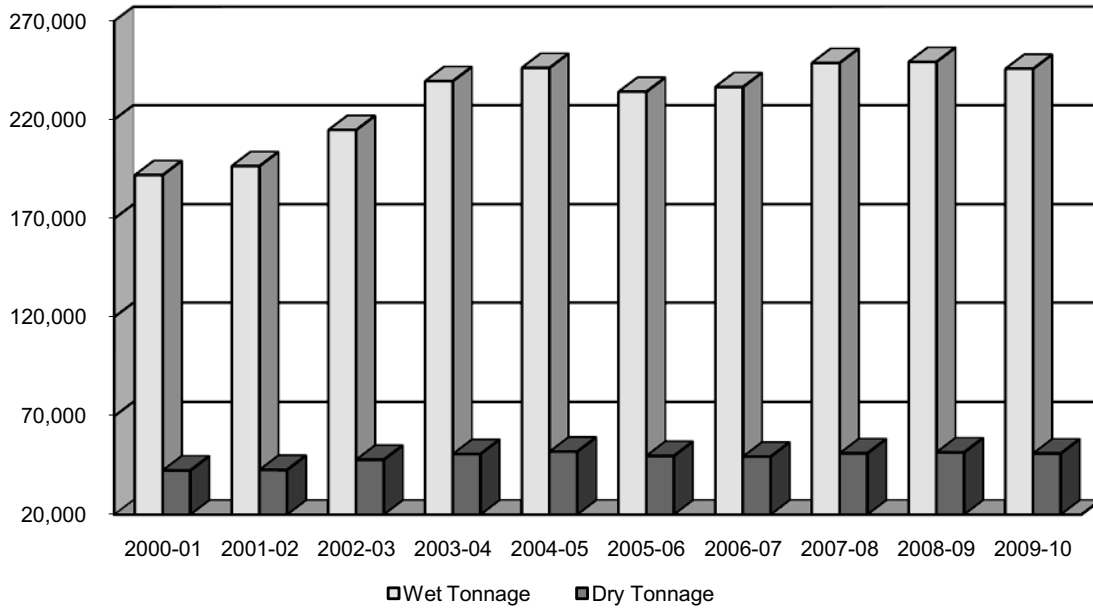
General Management  
  Administrative Services  
  Technical Services  
  Engineering  
  Operations and Maintenance

	<b>Fiscal Year Ending June 30,</b>									
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
General Management	12	17	17	17	17	2	25	30	30	15
Administrative Services	88	97	107	116	123	145	102	98	97	109
Technical Services	87	95	94	100	112	114	119	109	107	105
Engineering	73	104	79	80	95	99	98	104	108	106
Operations and Maintenance	250	261	272	285	282	284	300	293	299	306
<b>Total FTE's</b>	<b>510</b>	<b>574</b>	<b>569</b>	<b>598</b>	<b>629</b>	<b>644</b>	<b>644</b>	<b>634</b>	<b>641</b>	<b>641</b>

Source: Orange County Sanitation District's Financial Management Division.



**ORANGE COUNTY SANITATION DISTRICT**  
 Biosolids Produced  
 Last Ten Fiscal Years



<u>Fiscal Year</u>	<u>Wet Tonnage</u>	<u>Dry Tonnage</u>
2000-01	192,063	42,254
2001-02	196,600	42,505
2002-03	214,600	47,631
2003-04	239,426	50,519
2004-05	246,194	51,700
2005-06	233,996	49,554
2006-07	236,460	49,184
2007-08	248,717	50,884
2008-09	249,202	51,342
2009-10	245,668	50,799

Source: Orange County Sanitation District's Environmental Compliance & Regulatory Affairs Division.

**ORANGE COUNTY SANITATION DISTRICT**

Capital Asset Statistics

Last Ten Fiscal Years

<b>Fiscal Year</b>	<b>Miles of Trunk &amp; Subtrunk Sewers</b>	<b>Number of Pump Stations</b>	<b>Primary Treatment Capacity (1)</b>	<b>Secondary Treatment Capacity (1)</b>
2000-01	650	20	266	200
2001-02	650	20	276	200
2002-03	650	20	276	200
2003-04	650	20	276	170
2004-05	620	18	306	170
2005-06	584	16	366	200
2006-07	581	16	372	200
2007-08	568	17	372	200
2008-09	582	17	372	212
2009-10	579	17	372	212

**Notes**

(1) - Capacity is presented as million gallons treated per day.

Source: Orange County Sanitation District

**ORANGE COUNTY SANITATION DISTRICT**  
Demographic Statistics  
Covering The Entire County of Orange (1)  
Last Ten Fiscal Years

Fiscal Year	(2) Population Estimates	Total Personal Income (in thousands)	Per Capita Personal Income	(5) Median Family Income	(6) Public School Enrollment	(7) Unemployment Rate
2000-01	2,880,000	\$ 112,244,731 (3)	\$ 38,974	\$ 73,700	494,000	3.0%
2001-02	2,940,000	116,003,461 (3)	39,457	75,600	503,000	4.1%
2002-03	2,979,000	122,425,833 (3)	41,096	70,000	512,000	4.0%
2003-04	3,017,000	130,320,295 (3)	43,195	74,200	517,000	3.6%
2004-05	3,047,000	139,408,041 (3)	45,753	75,700	514,000	3.9%
2005-06	3,072,000	150,597,800 (4)	49,023	78,300	510,114	3.7%
2006-07	3,090,000	153,838,700 (4)	49,786	78,700	503,955	3.9%
2007-08	3,108,000	155,118,400 (4)	49,909	84,100	503,492	5.3%
2008-09	3,135,000	152,417,500 (4)	48,618	86,100	504,136	9.3%
2009-10	3,166,000	155,181,900 (4),(8)	49,015	87,200	504,136 (9)	9.5%

**Notes and Data Sources**

(1) - The Orange County Sanitation District services 471 square miles or 59% of the total 799 square miles that make up the boundaries of the County of Orange.

(2) - Data Source: Demographic Research Unit, California Department of Finance.

(3) - Data Source: Bureau of Economic Analysis, U.S. Department of Commerce.

(4) - Data Source: Anderson Center for Economic Research, Chapman University.

(5) - Data Source: U.S. Department of Housing and Urban Development.

(6) - Data Source: California Department of Education, Educational Demographics Unit.

(7) - Data Source: State of California, Employment Development Department as of June 30 of each fiscal year.

(8) - Forecasted number

(9) - 2009-10 figure is unavailable at this time

**ORANGE COUNTY SANITATION DISTRICT**

Estimated Populations Served by the  
Orange County Sanitation District  
June 30, 2010

	<b>Population as of <u>January 1, 2010</u></b>
Anaheim	353,640
Brea	40,380
Buena Park	84,140
Costa Mesa	117,180
Cypress	49,980
Fountain Valley	58,740
Fullerton	138,610
Garden Grove	175,620
Huntington Beach	203,480
Irvine	217,690
La Habra	63,180
La Palma	16,300
Los Alamitos	12,270
Newport Beach	86,740
Orange	142,710
Placentia	52,310
Santa Ana	357,750
Seal Beach	26,010
Stanton	39,800
Tustin	75,770
Villa Park	6,310
Westminister	94,290
Yorba Linda	69,270
Subtotal City (1)	<u>2,482,170</u>
Estimated Population Served in Unincorporated Areas (2)	<u>81,000</u>
	<u><u>2,563,170</u></u>

**Data Sources:**

- (1) Demographic Research Unit, California Department of Finance.
- (2) Orange County Sanitation District Financial Management Division.

**ORANGE COUNTY SANITATION DISTRICT**  
Principal Orange County Employers (1)  
For the Current Fiscal Year and Nine Years Ago

<u>Employers</u>	<u>Fiscal Year Ended 6/30/10</u>			<u>Fiscal Year Ended 6/30/01</u>		
	<u>Number of Employees (2)</u>	<u>Rank</u>	<u>Percentage of Total County Employment (3)</u>	<u>Number of Employees (2)</u>	<u>Rank</u>	<u>Percentage of Total County Employment (4)</u>
Walt Disney Co.	19,800	1	1.36%	8,500	5	0.59%
University of California, Irvine	19,279	2	1.33%	10,000	3	0.69%
County of Orange	17,895	3	1.23%	16,408	1	1.13%
St. Joseph Health System	10,929	4	0.75%			
Boeing Co.	8,477	5	0.58%	10,300	2	0.71%
YUM! Brands Inc.	7,000	6	0.48%			
Target Corp.	6,226	7	0.43%			
SuperValu, Inc.	5,923	8	0.41%			
Kaiser Permanente	5,598	9	0.38%			
Memorial Health Services, Inc.	5,533	10	0.38%			
Verizon Wireless				9,000	4	0.62%
Pinkerton Security				3,800	6	0.26%
Knott's Berry Farm				3,500	7	0.24%
Pacificare of California				3,500	8	0.24%
Hoag Memorial Hospital				3,200	9	0.22%
Ingram Micro, Inc.				3,000	10	0.21%
Total	<u>106,660</u>		<u>7.33%</u>	<u>71,208</u>		<u>4.91%</u>

**Notes & Data Sources**

(1) - Data is for the entire County of Orange.

(2) - Data Sources: Orange County Business Journal Book of Lists, County of Orange

(3) - Data Source: State of California, Employment Development Department.

- Percentage is calculated by dividing employees by total employment of 1,454,700 as of June 2010.

(4) - Data Source: State of California, Employment Development Department.

- Percentage is calculated by dividing employees by total employment of 1,451,200 as of June 2001.

**ORANGE COUNTY SANITATION DISTRICT**

Operating Indicators

June 30, 2010

**District Organization:** The Orange County Sanitation District is one consolidated district made up of two revenue areas which service unincorporated county areas and twenty-three cities and related special districts, as follows:

**Consolidated Revenue Area**

County of Orange (unincorporated areas)

Cities:

Anaheim	Huntington Beach	Santa Ana
Brea	Irvine	Seal Beach
Buena Park	La Habra	Stanton
Costa Mesa	La Palma	Tustin
Cypress	Los Alamitos	Villa Park
Fountain Valley	Newport Beach	Westminster
Fullerton	Orange	Yorba Linda
Garden Grove	Placentia	

Special Districts:

Midway City Sanitary District

Costa Mesa Sanitary District

**Revenue Area No. 14**

County of Orange (unincorporated areas)

Cities:

Irvine  
Orange  
Tustin

Special District:

Irvine Ranch Water District

<b>Governing Body:</b>	25-member Board of Directors
<b>Authorized Full-Time Equivalent Employees:</b>	641
<b>Operational Date:</b>	July 1, 1954
<b>Authority:</b>	California Health & Safety Code Section 4700 et. seq.
<b>Services:</b>	Wastewater collection, treatment, and disposal
<b>Service Area:</b>	480 square miles
<b>Population Served:</b>	2.6 million
<b>Total Miles of Sewers (including force mains):</b>	579 miles
<b>Number of Pumping Stations:</b>	17

**Wastewater System Treatment Capacities (Million Gallons per Day)**

	<u>Actual Flows</u>	<u>Existing Primary Treatment Capacity</u>	<u>Existing Secondary Treatment Capacity</u>	<u>Planned Secondary Capacity by 2020</u>
Plant 1	98	204	122	182
Plant 2	<u>109</u>	<u>168</u>	<u>90</u>	<u>150</u>
Total	<u>207</u>	<u>372</u>	<u>212</u>	<u>332</u>

Source: Orange County Sanitation District's Financial Management Division.

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**ORANGE COUNTY SANITATION DISTRICT  
OTHER DATA & TRENDS**

Information within this section consists of other data and trends including additional annual disclosures as required by the Sanitation District's Certificates of Participation debt covenants beyond what is allowed to be reported in the Statistical Section.



**ORANGE COUNTY SANITATION DISTRICT**

Cash and Investment Portfolio  
as of June 30, 2010

	Cost		Market Value Base	Net Unrealized Gain/Loss	
	Shares Par	Base		% of Total	Base
<b>Investment Portfolio:</b>					
<b>Cash and Cash Equivalents (U.S. Dollar):</b>					
Pending Trades	\$ -	\$ (2,151,115.26)	\$ (2,151,115.26)	-0.61%	\$ -
Cash Equivalents	104,812.50	104,812.50	31,443.75	0.01%	(73,368.75)
Commercial Paper - Discount	1,300,000.00	1,299,524.78	1,299,524.78	0.37%	-
Federal Home Loan Mortgage-Less Than 1 Year	6,400,000.00	6,393,422.22	6,393,422.22	1.81%	-
FNMA Issues - Less Than 1 Year	12,400,000.00	12,394,335.22	12,394,335.22	3.51%	-
Mutual Funds	1,080,212.54	1,080,212.54	1,080,212.54	0.31%	-
Repurchase Agreements	12,500,000.00	12,500,000.00	12,500,000.00	3.54%	-
Treasury Bills - Less Than 1 Year	26,000,000.00	25,988,305.76	25,988,305.76	7.36%	-
Subtotal	59,785,025.04	57,609,497.76	57,536,129.01	16.29%	(73,368.75)
<b>Fixed Income Securities (U.S. Dollar):</b>					
Asset Backed Securities - Credit Cards	2,000,000.00	1,997,421.88	1,998,040.00	0.57%	618.12
Asset Backed Securities - Small Bus Ac	1,164,451.38	1,164,451.38	1,259,444.78	0.36%	94,993.40
Asset Backed Securities - Student Loan	88,359.56	88,001.04	91,339.04	0.03%	3,338.00
Banking & Finance	52,800,000.00	51,145,171.00	51,473,493.00	14.58%	328,322.00
FDIC Guaranteed Bank & Finance	44,250,000.00	44,876,005.15	45,533,707.50	12.89%	657,702.35
FHLMC Multiclass	687,991.19	693,688.58	703,078.68	0.20%	9,390.10
FHLMC Pools	16,771.65	16,362.84	17,414.84	0.00%	1,052.00
FNMA Pools	460,858.46	457,258.00	480,279.04	0.14%	23,021.04
FNMA Remic	200,000.00	190,250.00	199,630.00	0.06%	9,380.00
GNMA Multi Family Pools	556,724.84	556,277.49	573,797.36	0.16%	17,519.87
GNMA Single Family Pools	1,940.82	2,036.94	2,155.59	0.00%	118.65
Industrial	1,000,000.00	1,032,730.00	1,030,370.00	0.29%	(2,360.00)
Insurance	2,910,000.00	1,876,950.00	2,808,150.00	0.80%	931,200.00
Taxable Municipals	9,040,000.00	9,069,683.89	9,263,750.80	2.62%	194,066.91
Technology	1,100,000.00	1,119,998.00	1,115,213.00	0.32%	(4,785.00)
U.S. Agencies	20,256,605.78	20,424,177.78	20,472,194.94	5.80%	48,017.16
U.S. Governments	152,910,000.00	153,464,947.64	155,420,490.30	44.01%	1,955,542.66
Utility - Electric	2,800,000.00	2,888,760.00	3,178,784.00	0.90%	290,024.00
Subtotal	292,243,703.68	291,064,171.61	295,621,332.87	83.71%	4,557,161.26
Total Investment Portfolio	\$ 352,028,728.72	348,673,669.37	353,157,461.88	100.00%	\$ 4,483,792.51
Demand Cash Accounts		1,799,573.00	1,799,573.00		
Monies Held With Fiscal Agents		113,459,066.00	113,459,066.00		
Monies with the Local Agency Investment Fund		4,908,217.32	4,916,285.00		
Total Cash and Investments		\$ 468,840,525.69	\$ 473,332,385.88		

Source: Mellon Trust and the Orange County Sanitation District's Financial Management Division.

**ORANGE COUNTY SANITATION DISTRICT**  
Property Tax Rates - Direct and Overlapping Governments  
Last Ten Fiscal Years

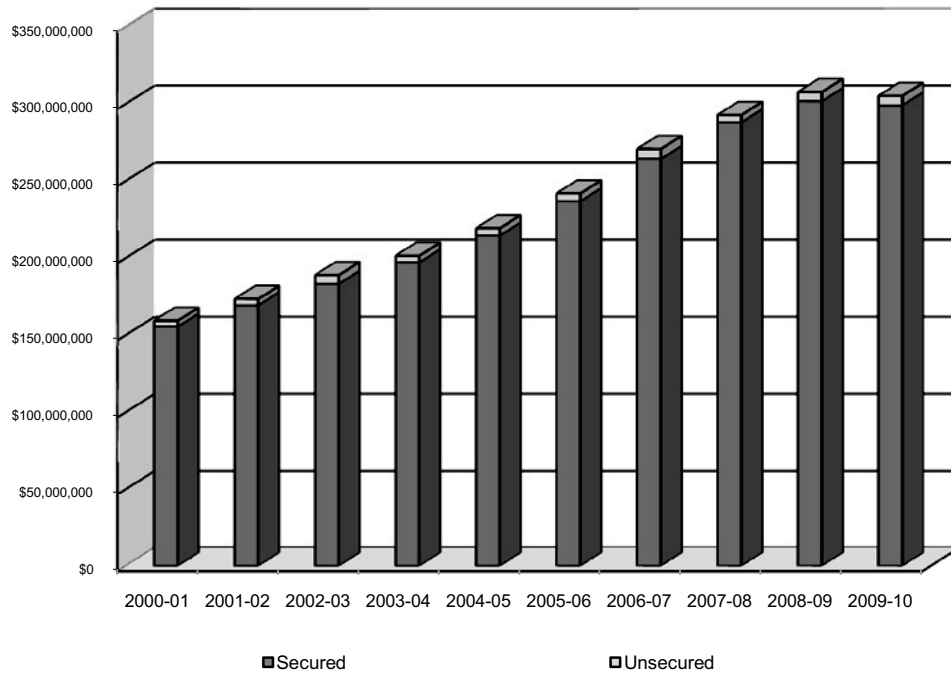
<b>Fiscal Year</b>	<b>Tax Rate</b>			<b>OCSD's Average Share of Basic Levy</b>
	<b>Basic Levy</b>	<b>OCSD 1958 General Obligation Bonds</b>	<b>Total Tax Rate</b>	
2000-01	1.00%	0.00%	1.00%	2.80%
2001-02	1.00%	0.00%	1.00%	2.80%
2002-03	1.00%	0.00%	1.00%	2.80%
2003-04	1.00%	0.00%	1.00%	2.80%
2004-05	1.00%	0.00%	1.00%	1.60%
2005-06	1.00%	0.00%	1.00%	1.60%
2006-07	1.00%	0.00%	1.00%	2.80%
2007-08	1.00%	0.00%	1.00%	2.80%
2008-09	1.00%	0.00%	1.00%	2.80%
2009-10	1.00%	0.00%	1.00%	2.80%

**Notes**

In 1978, California voters passed Proposition 13 which set the property tax rate at a 1.00% fixed amount of assessed value. This 1.00% is shared by all taxing agencies within which the subject property resides. In addition to the 1.00% fixed amount, property owners were charged taxes as a percentage of assessed property values for the payment of OCSD general obligation bonds (which were paid in full in fiscal year 1998-99).

Source: County of Orange Auditor-Controller's Office.

**ORANGE COUNTY SANITATION DISTRICT**  
 Assessed and Estimated Actual Value of Taxable Property  
 Last Ten Fiscal Years

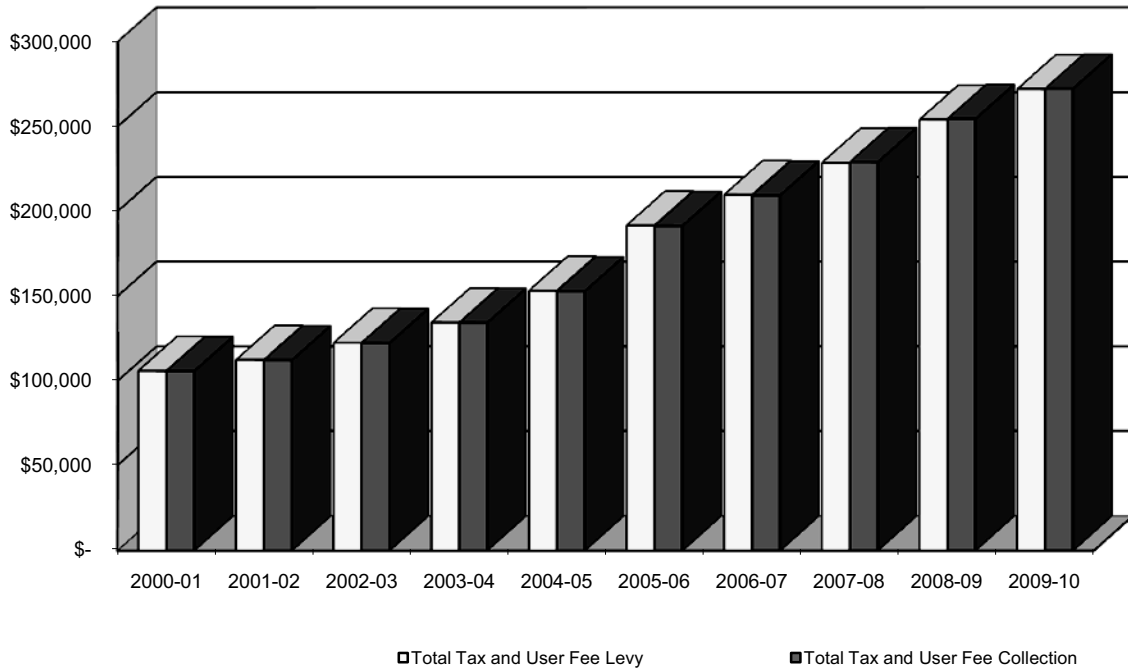


<b>Fiscal Year</b>	<b>Secured</b>	<b>Unsecured</b>	<b>Total</b>	<b>Percent Change in Assessed Value</b>
2000-01	155,544,000	3,778,000	159,322,000	9.40%
2001-02	169,357,000	4,066,000	173,423,000	8.85%
2002-03	183,223,000	5,657,000	188,880,000	8.91%
2003-04	197,143,000	4,309,000	201,452,000	6.66%
2004-05	214,529,000	4,743,000	219,272,000	8.85%
2005-06	236,826,573	5,023,423	241,849,996	10.30%
2006-07	264,241,033	6,452,111	270,693,144	11.93%
2007-08	288,051,467	4,681,838	292,733,305	8.14%
2008-09	301,717,479	5,894,003	307,611,482	5.08%
2009-10	299,038,654	6,116,530	305,155,184	-0.80%

In 1978, the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an inflation factor which is limited to a maximum increase of 2%. With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above. Consequently, the assessed and estimated values are the same.

Source: Orange County Auditor - Controller's Office.

**ORANGE COUNTY SANITATION DISTRICT**  
Property Tax and User Fee Levies and Collections  
(Dollars in Thousands)  
Last Ten Fiscal Years



Fiscal Year	Total Tax and User Fee Levy	ERAF III Deduction	Current Tax and User Fee Collection	Percent of Levy Collected	Delinquent Collection	Total Tax and User Fee Collection	% of Total Collection to Levy	O/S Delinquencies	% of Delinquencies to Tax Levy
2000-01	\$ 105,890	\$ -	\$ 105,646	99.77	\$ 94	\$ 105,740	99.86	\$ 154	0.15
2001-02	112,419	-	112,087	99.70	83	112,170	99.78	245	0.22
2002-03	122,450	-	122,210	99.80	98	122,308	99.88	332	0.27
2003-04	134,389	-	134,132	99.81	94	134,226	99.88	241	0.18
2004-05	153,187	(16,198)	152,745	99.71	92	152,837	99.77	257	0.17
2005-06	191,711	(16,198)	191,290	99.78	122	191,412	99.84	421	0.22
2006-07	209,766	-	209,206	99.73	215	209,421	99.84	560	0.27
2007-08	228,622	-	228,635	100.01	329	228,964	100.15	(13)	(0.01)
2008-09	254,092	-	254,106	100.01	395	254,501	100.16	(14)	(0.01)
2009-10	272,050	-	272,110	100.02	226	272,336	100.11	(60)	(0.02)

Source: Orange County Auditor - Controller's Office.

**ORANGE COUNTY SANITATION DISTRICT**

Property Value and Construction  
 Covering The Entire County of Orange (1)  
 (Dollars In Thousands)  
 Last Ten Fiscal Years

<u>Assessed Property Value (2)</u>		<u>Calendar Year</u>	<u>Non- Residential Constr. (3)</u>	<u>Residential Construction (3)</u>		<u>Total Construction Value (3)</u>
<u>Fiscal Year</u>	<u>Value</u>		<u>Value</u>	<u>No. of Units</u>	<u>Value</u>	
2000-01	\$ 228,548,301	2001	\$ 1,349,607	8,646	\$ 1,905,321	\$ 3,254,928
2001-02	248,966,581	2002	1,208,626	12,020	2,328,123	3,536,749
2002-03	269,684,864	2003	1,005,547	9,311	2,076,976	3,082,523
2003-04	287,923,828	2004	1,132,848	9,322	2,243,642	3,376,490
2004-05	311,802,395	2005	1,494,759	7,206	2,100,436	3,595,195
2005-06	342,576,859	2006	2,400,569	8,371	2,316,948	4,717,517
2006-07	381,007,391	2007	2,005,198	7,072	1,792,270	3,797,468
2007-08	412,669,779	2008	1,439,120	3,159	1,037,713	2,476,833
2008-09	428,809,224	2009	952,480	2,184	853,003	1,805,483
2009-10	422,965,596	2010 (4)	928,597	2,736	983,709	1,912,306

**Notes and Data Sources**

(1) - The Orange County Sanitation District services 480 square miles or 60% of the total 799 square miles that make up the boundaries of the County of Orange.

(2) - Data Source - Orange County Auditor-Controller's Office.

(3) - Data Source - "The Chapman University Economic & Business Review."

(4) - Forecasted numbers.

**ORANGE COUNTY SANITATION DISTRICT**

Insurance in Force

As of July 1, 2010

<u>Type</u>	<u>Insurer</u>	<u>Deductible</u>	<u>Limit</u>
<b><u>All-Risk Property</u></b>			
Fire and Other Perils	Public Entity Property Insurance Program (Lexington and others)	\$250,000 per occurrence	\$1 billion/occurrence
Flood	Public Entity Property Insurance Program	\$100,000 per occurrence	\$300 million/occurrence
Earthquake	Not Applicable	Not Applicable	Self-insured
<b><u>Boiler &amp; Machinery</u></b>			
	Public Entity Property Insurance Program (Lexington and others)	\$25,000 to \$350,000	\$100 million/occurrence
<b><u>Crime Insurance</u></b>			
	National Union Fire	\$25,000	\$5 million
<b><u>Excess General Liability</u></b>			
	Everest National Insurance Co. (first \$10 million layer); American Merchants Casualty Ins. Co. (\$20 million layer excess \$10 million)	\$250,000 \$500,000 for EPLI	\$30 million/occurrence and annual aggregate
<b><u>Travel &amp; Accident</u></b>			
	Chubb Group of Insurance Companies	None	Accidental Death & Dismemberment: Class 1: Elected Officials, \$500,000 per occurrence Class 2: Employees, 10X annual salary, up to \$500,000 per occur.
<b><u>Excess Workers' Compensation</u></b>			
	CSAC Excess Insurance Authority Program	\$500,000 Each Accident	Unlimited statutory coverage each accident, each employee \$4.5 million employer's liability
<b><u>Pollution Liability</u></b>			
	CSAC Excess Insurance Authority Program	\$100,000	\$10,000,000 per loss
<b><u>Watercraft</u></b>			
Liability	Northern Assurance Co. of Am.	\$15,000	\$10 million
Hull & Machinery	Northern Assurance Co. of Am.	\$15,000	\$1.3 million
Pollution Liability	Great American Ins. Co,	None	\$5 million
<b><u>OCIP Main Basket</u></b> ("OCIP" = Owner Contolled Ins. Program for Construction)			
Workers Comp.	Liberty Mutual	\$250,000/occur.	Unlimited statutory coverage
General Liability	Liberty Mutual	\$250,000/occur.	\$2 million/occurrence; \$4 million agg.
<b><u>OCIP Excess Liability</u></b>			
	AIG	\$10,000	\$100 million
<b><u>OCIP Pollution Liability</u></b>			
	Liberty Surplus	\$250,000	\$15 million

Source: Orange County Sanitation District's Risk Management Office.

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**APPENDIX B**

**THE COUNTY OF ORANGE – ECONOMIC AND DEMOGRAPHIC INFORMATION**



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## APPENDIX B

### THE COUNTY OF ORANGE – ECONOMIC AND DEMOGRAPHIC INFORMATION

The County is bordered on the north by Los Angeles County, on the east by Riverside County, on the southeast by San Diego County and on the west and southwest by the Pacific Ocean. Approximately 42 miles of ocean shoreline provide beaches, marinas and other recreational areas for use by residents and visitors. The climate in the County is mild, with an average annual rainfall of 13 inches.

#### Population

The County is the third most populous county in the State and the sixth most populous in the nation. During the period 2001 through 2010, the population of the County increased by approximately 5.5%, compared to 8.0% for the State and 8.3% for the United States.

**TABLE B-1**  
**COUNTY OF ORANGE, STATE OF CALIFORNIA AND**  
**UNITED STATES POPULATION GROWTH<sup>(1)</sup>**

<u>Year</u>	<u>Orange County</u>	<u>State of California</u>	<u>United States of America</u>
2001	2,890,684	34,485,623	285,081,556
2002	2,917,162	34,876,194	287,803,914
2003	2,941,573	35,251,107	290,326,418
2004	2,956,461	35,558,419	293,045,739
2005	2,957,404	35,795,255	295,753,151
2006	2,952,610	35,979,208	298,593,212
2007	2,957,307	36,226,122	301,579,895
2008	2,988,541	35,580,371	304,374,846
2009	3,023,265	36,961,664	307,006,550
2010	3,050,024	37,253,956	308,795,538

<sup>(1)</sup> As of July 1 of each year, except 2010 data as of April 1, 2010.

Source: *United States Statistics – Population Estimates Program, Population Division, U.S. Census Bureau.*

#### Public Schools (Elementary and Secondary)

Public instruction in the County is provided by twelve elementary school districts, three high school districts and twelve unified (combined elementary and high school) districts. For the 2009-10 academic year, the largest district in the County, the Santa Ana Unified School District, reported a student enrollment of 56,937. Public school enrollment for the academic calendar years 2005-06 through 2009-10 is presented in Table B-2.

**TABLE B-2  
COUNTY OF ORANGE  
PUBLIC SCHOOL ENROLLMENT**

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Total Enrollment	510,114	503,955	503,225	504,136	502,239

*Source: California Department of Education, Data Quest Report.*

**Colleges and Universities**

The County has a number of top-rated, college-level educational institutions, including the University of California at Irvine and California State University at Fullerton, several private colleges, universities and law schools and four community college districts.

**Employment**

The following table summarizes the historical numbers of workers in the County over the period 2006 through 2010 by industry.

**TABLE B-3  
COUNTY OF ORANGE  
INDUSTRY EMPLOYMENT AND LABOR FORCE - ANNUAL AVERAGE<sup>(1)</sup>**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Farm	5,300	5,000	4,600	3,800	3,800
Natural Resources and Mining	600	600	600	500	500
Construction	106,600	103,100	91,200	74,200	67,100
Manufacturing	182,700	180,400	174,100	154,800	150,200
Wholesale Trade	83,700	86,900	86,700	79,400	77,400
Retail Trade	160,800	161,200	155,600	142,300	140,100
Transportation, Warehousing Utilities	28,200	28,900	29,300	27,800	26,700
Information	31,900	31,200	30,100	27,300	25,000
Financial Activities	138,200	127,700	113,100	105,100	103,600
Professional and Business Services	274,500	273,300	266,600	240,200	242,800
Educational and Health Services	137,700	142,600	150,700	152,100	156,000
Leisure and Hospitality	169,600	172,900	176,400	169,100	168,700
Other Services	47,700	47,400	46,500	47,600	42,400
Government	<u>156,700</u>	<u>159,400</u>	<u>160,800</u>	<u>156,600</u>	<u>152,500</u>
Total <sup>(1)</sup>	1,524,200	1,520,600	1,486,300	1,380,800	1,356,800

<sup>(1)</sup> These categories do not represent all employment categories.

*Source: California Employment Development Department.*

## Major Employers

The following table lists the major employers in the County for 2010.

**TABLE B-4  
COUNTY OF ORANGE  
MAJOR EMPLOYERS  
2010**

<b><u>Employer Name</u></b>	<b><u>Number of Employees (Full and Part-Time)</u></b>
University of California, Irvine	20,650
Walt Disney Company	20,000
County of Orange	16,004
St. Joseph Health System	11,965
Boeing Company	8,060
Bank of America Corp.	6,500
YUM! Brands Inc.	6,500
Supervalu Inc. (Albertsons)	5,900
Kaiser Permanente	5,397
Target Corp.	5,325

*Source: Orange County Business Journal, 2010 for all employers other than the County; number of County employees, provided by the County Budget Office (number of filled positions on April 21, 2011).*

**Labor Force, Employment and Unemployment**

Table B-5 summarizes the labor force, employment and unemployment figures over the period 2007 through 2011 for the County and the State.

**TABLE B-5  
COUNTY OF ORANGE AND STATE OF CALIFORNIA  
LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT  
YEARLY AVERAGE**

<u>Year and Area</u>	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
<u>2007</u>				
Orange County	1,609,400	1,547,000	62,400	3.9%
California	17,928,700	16,970,200	958,500	5.3
<u>2008</u>				
Orange County	1,617,200	1,532,300	84,900	9.0
California	18,191,000	16,883,400	1,307,600	7.2
<u>2009</u>				
Orange County	1,588,700	1,447,700	141,000	8.9
California	18,204,200	16,141,500	2,062,700	11.3
<u>2010</u>				
Orange County	1,580,100	1,429,700	151,200	9.6
California	18,176,200	15,916,300	2,259,900	12.4
<u>2011</u>				
Orange County	1,566,900	1,422,900	144,000	9.2
California	18,071,900	15,888,800	2,183,100	12.1

<sup>(1)</sup> As of June, 2011.

Source: California Employment Development Department.

**Personal Income and other Demographic Information**

Table B-6 summarizes the personal income, per capita personal income, median family income, public school enrollment and unemployment rate for the County of Orange.

**TABLE B-6  
COUNTY OF ORANGE  
DEMOGRAPHIC INFORMATION<sup>(1)</sup>**

<b>Fiscal Year</b>	<b>Total Personal Income (in millions)</b>	<b>Per Capita Personal Income</b>	<b>Median Family Income</b>	<b>Public School Enrollment<sup>(3)</sup></b>	<b>Unemployment Rate</b>
2005-06	\$1,495,560	\$41,567	\$56,646	510,114	3.9%
2006-07	1,572,271	43,402	59,928	503,955	3.9
2007-08	1,604,113	43,852	61,017	503,225	9.0
2008-09	1,564,389	42,325	71,735 <sup>(2)</sup>	504,136	8.9
2009-10	Not Available	Not Available	Not Available	502,239	9.6

<sup>(1)</sup> The Orange County Sanitation District services 471 square miles or 59% of the total 799 square miles that make up the boundaries of the County of Orange.

<sup>(2)</sup> U.S. Census Bureau.

<sup>(3)</sup> California Department of Education, Educational Demographics Unit.

Source: State of California, Employment Development Department, unless otherwise noted.

## Taxable Sales

Table B-7 summarizes the annual volume of taxable transactions in the County from 2006 through 2008.

**TABLE B-7**  
**COUNTY OF ORANGE**  
**TAXABLE TRANSACTIONS 2006 THROUGH 2008<sup>(1)</sup>**  
**(in Thousands)**

<u>Type of Business</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Apparel stores group	\$ 2,152,410	\$ 2,217,996	\$ 2,340,116
General merchandise group	5,741,912	5,856,810	5,493,287
Specialty stores group	6,514,211	-- <sup>(2)</sup>	-- <sup>(2)</sup>
Food stores group	1,781,284	1,815,201	1,745,903
Eating and drinking groups	5,051,841	5,296,863	5,245,480
Household group	2,202,194	2,079,957	1,900,543
Building material group	3,029,741	2,798,938	2,370,154
Automotive group	7,508,772	7,366,864	5,804,517
Service stations	3,982,167	4,102,725	4,626,596
All other retail stores group	<u>1,109,919</u>	<u>7,452,873<sup>(2)</sup></u>	<u>6,242,035<sup>(2)</sup></u>
RETAIL STORES TOTALS	\$39,074,451	\$38,988,227	\$35,768,595
Business and Personal Services	2,987,539	2,968,831	2,828,005
All Other Outlets	<u>15,140,757</u>	<u>15,336,413</u>	<u>15,010,229</u>
TOTAL ALL OUTLETS	\$57,202,747	\$57,293,471	\$53,606,829

<sup>(1)</sup> Figures for 2009 and 2010 are set forth in Table B-8 due to changes in the categorization of the types of business.

<sup>(2)</sup> As of 2007, the "Specialty stores group" is no longer a calculated sub-category; its figures for 2007 and 2008 are included in "All other retail stores group."

Source: California State Board of Equalization.

Table B-8 summarizes the accrued volume of taxable transactions in the County in 2009 and for the first quarter of 2010. Note that commencing in 2009, the categorization of the types of business was changed from previous years.

**TABLE B-8  
COUNTY OF ORANGE  
TAXABLE TRANSACTIONS 2009 AND 2010  
(in Thousands)**

<u>Type of Business</u>	<u>2009</u>	<u>2010<sup>(1)</sup></u>
Motor vehicles and parts dealers	\$ 4,902,480	\$ 1,221,232
Furniture and home furnishings stores	850,889	192,303
Electronics and appliance stores	1,978,869	467,253
Bldg. matrl. and garden equipment and supplies	2,039,686	484,662
Food and beverage stores	1,894,642	439,588
Health and personal care stores	784,067	192,950
Gas stations	3,383,678	889,715
Clothing and clothing accessories stores	2,742,626	610,988
Sporting goods, hobby, book and music stores	1,074,579	245,536
General merchandise stores	4,376,154	984,197
Miscellaneous store retailers	1,625,880	381,762
Nonstore retailers	484,692	113,574
Food services and drinking places	<u>5,024,379</u>	<u>1,213,042</u>
TOTAL RETAIL AND FOOD SERVICES	31,162,619	7,436,800
All Other Outlets	<u>14,550,164</u>	<u>3,363,990</u>
TOTAL ALL OUTLETS	\$45,712,784	\$10,800,790

<sup>(1)</sup> Through first quarter of 2010 only.

Source: California State Board of Equalization.

### **Housing Characteristics**

The total number of housing units in the County was estimated by the California State Department of Finance to be 1,040,544 as of January 1, 2010. This compares to 1,035,536 reported by the Department of Finance in January of 2009. According to the Southern California Multiple Listing Service, the median sale price of single-family dwelling units in Orange County was \$548,500 in May of 2010, an 11.9% increase from the prior year.

### **Building Permits**

The total valuation of building permits issued in the County reached \$2.18 billion in 2010. Table B-9 provides a summary of residential building permit valuations and the number of new dwelling units authorized in the County during the period 2007 through 2011.



**TABLE B-9  
COUNTY OF ORANGE  
BUILDING PERMIT ACTIVITY  
2007 through 2011<sup>(1)</sup>  
(\$ in Thousands)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011<sup>(1)</sup></u>
<u>Valuation:</u>					
Residential	\$1,792,270	\$1,037,713	\$855,193	\$1,029,407	\$ 771,033
Non-Residential	<u>2,005,198</u>	<u>1,439,120</u>	<u>952,480</u>	<u>1,151,929</u>	<u>543,870</u>
Total	\$3,797,468	\$2,476,833	\$1,807,673	\$2,181,336	\$1,314,903
<u>New Housing Units:</u>					
Single Family	2,182	1,295	1,376	1,553	1,260
Multiple Family	<u>4,890</u>	<u>1,864</u>	<u>824</u>	<u>1,538</u>	<u>2,174</u>
Total	7,072	3,159	2,200	3,091	3,434

<sup>(1)</sup> Through June 30, 2011.

Source: *Construction Industry Research Board.*

### **Water Supply**

Maintaining the County's water supply is the responsibility of the Orange County Water District ("OCWD"), manager of the County's groundwater basin, and the Municipal Water District of Orange County ("MWDOC"), the County's largest manager of imported water. More than 60% of the County's water is from local groundwater sources; the rest is imported. The County's natural underground reservoir is sufficient to carry it through temporary shortfall periods, but local supplies alone cannot sustain the present population.

### **Recreation and Tourism**

The County is a tourist center in Southern California because of the broad spectrum of amusement parks and leisure, recreational and entertainment activities that it offers. These tourist attractions are complimented by the year-round mild climate.

Along the County's Pacific Coast shoreline are five state beaches and parks, five municipal beaches and five County beaches. There are two small-craft docking facilities in Newport Harbor, a third located at Sunset Beach and a fourth at Dana Point.

Other major recreational and amusement facilities include Disneyland, Disney's California Adventure, Knott's Berry Farm and the Spanish Mission of San Juan Capistrano. Also located within the County are the Anaheim Convention Center, Edison International Field of Anaheim, Honda Center, Orange County Performing Arts Center, Verizon Wireless Amphitheater and the Art Colony at Laguna Beach with its annual art festival.

The Anaheim Convention Center is located adjacent to Disneyland. It is situated on 53 acres and is one of the largest convention centers on the West Coast. Table B-10 summarizes the number of conventions held in the County, as well as attendance for the period 2006 through 2010.

**TABLE B-10  
COUNTY OF ORANGE  
CONVENTION ACTIVITY**

<u>Year</u>	<u>Conventions</u>	<u>Attendance</u>
2006	633	1,096,100
2007	749	1,197,593
2008	766	1,224,586
2009	584	1,292,179
2010	576	1,171,626

*Source: Anaheim/Orange County Visitor and Convention Bureau, 2010.*

### **Transportation**

The County is situated in the most heavily populated area in California and has access to excellent roads, rail, air and sea transportation. The Santa Ana Freeway (Interstate 5) provides direct access to downtown Los Angeles and connects with the San Diego Freeway (Interstate 405) southeast of the City of Santa Ana, providing a direct link with San Diego. The Garden Grove Freeway (State 22) and the Riverside Freeway (State 91) provide east-west transportation, linking the San Diego Freeway, Santa Ana Freeway and the Newport Freeway (State 55). The Newport Freeway provides access to certain beach communities.

Drivers in the County have access to two toll road systems of the Transportation Corridor Agencies. The San Joaquin Toll Road (73) runs from Costa Mesa to San Juan Capistrano connecting to the 405 and 5 interstate freeways. The Eastern and Foothill Toll Roads (241, 261 and 133) connect the County to the 91 freeway in the north and the 5 freeway, City of Irvine other South County cities, as well as Laguna Canyon Road. The Transportation Corridor Agencies are planning to extend 241 to connect to the 5 freeway near San Clemente.

Rail freight service is provided by the Burlington Northern Santa Fe Railway and the Union Pacific Railroad Company. Amtrak provides passenger service to San Diego to the south, Riverside and San Bernardino Counties to the east, and Los Angeles and Santa Barbara to the north. Metro Link provides passenger service to San Bernardino and Riverside counties to the east, the City of Oceanside to the south and Los Angeles County to the north. Bus service is provided by Greyhound Bus Lines. The Orange County Transportation Authority provides bus service between most cities in the County. Most interstate common carrier truck lines operating in California serve the County.

The John Wayne Airport, owned and operated by the County, is the only commercial service airport in the County. It is approximately thirty-five miles south of Los Angeles, between the cities of Coast Mesa, Irvine, Newport Beach and Santa Ana. Major airlines, including Alaska, Aloha, America West, American, Continental, Delta, Frontier, Northwest, Southwest and United fly from the airport to major cities throughout the country. In 2010, more than 8 million passengers were served.

In 1993, the Defense Base Realignment and Closure Commission directed the closure of Marine Corps Air Station (MCAS) El Toro (“El Toro” or “the base”) effective July 1999. The County was designated the Local Redevelopment Authority (“LRA”) for development of a Community Reuse Plan to guide future development of the former MCAS El Toro. In 1994, Orange County voters narrowly approved Measure A which zoned the property for use as an international airport. This touched off a multi-year legal and political battle that ended when 58% of Orange County voters approved Measure W, the Orange County Central Park and Nature Preserve Initiative, on March 5, 2002. Measure W repeals

Measure A and amends the County General Plan to prohibit aviation uses and limit future development for the unincorporated portion of El Toro to park, open space, nature preserve and education and compatible uses. The day after Measure W was approved, the Department of the Navy issued a press release stating that disposal of the former Base would be accomplished by means of a public auction. The City of Irvine responded by developing the Great Park Plan for El Toro. The City of Irvine was approved by the Local Agency formation Commission (“LAFCO”) to annex to the City the property that comprises the former MCAS El Toro. In light of the passage of Measure W, the County has discontinued all work related to the planning or development of a commercial airport at El Toro.

### **Natural Disasters; Seismic Activity**

Natural disasters, including floods, fires and earthquakes, have been experienced in the County. Seismic records spanning the past half century and historic records dating from the 1700s through the early 1900s indicate that the County is a seismically active area. The State Office of Emergency Services indicates that significant tremors are likely to occur in several fault zones during the next 50 to 100 years, including a tremor of 7.0 on the Richter scale within the Newport-Inglewood fault system. The chance of a Richter 7.0 earthquake occurring is estimated to be 1 to 2% in any year. For this reason, local building codes require that structures be designed to withstand the expected accelerations for the area without collapsing or suffering severe structural damage. Maps published by the State Department of Conservation indicate that portions of the County may be subject to the risk of earthquake-induced landslides or liquefaction.

**APPENDIX C**

**SUMMARY OF PRINCIPAL LEGAL DOCUMENTS**

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## APPENDIX C

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following summary discussion of selected provisions of the Trust Agreement, the Installment Purchase Agreement and the Master Agreement are made subject to all of the provisions of such documents. This summary discussion does not purport to be a complete statement of said provisions and prospective purchasers of the Revenue Obligations are referred to the complete texts of said documents, copies of which are available upon request sent to the Trustee.

### DEFINITIONS

**“Ad Valorem Taxes”** means, for any period, the ad valorem property taxes received by the District during such period pursuant to Article XIII A of the California Constitution and Section 95 *et seq.* of the California Revenue and Taxation Code, excluding any such taxes levied to pay any voter approved general obligation indebtedness of the District.

**“Administrative Costs”** means the ordinary and necessary administrative costs and incidental expenses related to the Obligations and the Obligation Securities, including, but not limited to, Obligation Trustee fees and expenses (including fees and expenses of counsel thereto), Credit Facility Costs, remarketing fees, and fees incurred in connection with the calculation of arbitrage rebate due to the federal government with respect to the Obligations.

**“Assumed Debt Service”** means, for any period, (a) for any Obligation other than Bonds, that portion of the Obligation Payments for such. Obligation required to be made in such period, and (b) for Bonds, the sum of (i) the interest payable during such period on all such Outstanding Bonds, assuming that all Outstanding serial Bonds are retired as scheduled and that all Outstanding term Bonds are redeemed or paid from sinking fund payments as scheduled, (ii) that portion of the principal amount of all such Outstanding serial Bonds maturing on any principal payment date which falls in such period, and (iii) that portion of the principal amount of all Outstanding term Bonds required to be redeemed or paid on any redemption date which falls in such period (together with the redemption premiums, if any, thereon). For purposes of calculating Assumed Debt Service, the following assumptions shall be used:

(A) in determining the principal amount due in each period, payment shall be assumed to be made in accordance with any amortization schedule established for such Obligations, including any scheduled payment at maturity or mandatory redemption or prepayment of Obligations on the basis of accreted value and, for such purpose, the scheduled payment at maturity or redemption payment or prepayment shall be deemed a principal payment;

(B) in determining the interest due in each period, interest payable at a fixed rate shall be assumed to be made at such fixed rate and on the required payment dates;

(C) if any outstanding Obligations constitute Variable Rate Indebtedness, the interest rate on such Obligations shall be assumed to be the greater of (x) the average interest rate on such Obligations during the 12 calendar months ending with the month preceding the date of calculation, or (y) the rate of interest on such Obligations on the date of calculation;

(D) if Obligations proposed to be incurred will be Variable Rate Indebtedness, then (x) if interest on such Obligations is excluded from gross income for purposes of Federal income taxation, such Obligations shall be assumed to bear interest at the rate quoted in the most recently available short-term index of SIFMA, or if that index is no longer published, another similar

index selected by the District or, if the District fails to select a replacement index, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Obligations proposed to be incurred, or if there are no such Treasury Bonds having equivalent maturities, 80% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets, and (y) if interest on such Obligations is not excluded from gross income for purposes of Federal income taxation, such Obligations shall be assumed to bear interest at an interest rate equal to 110% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Obligations proposed to be incurred, or if there are no such Treasury Bonds having equivalent maturities, 110% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets;

(E) if any outstanding Obligations constitute Balloon Indebtedness (and such Obligations do not constitute Short-Term Obligations excluded from the calculation of Assumed Debt Service pursuant to clause (H), below) or if Obligations proposed to be incurred would constitute Balloon Indebtedness (and such Obligations would not constitute Short-Term Obligations excluded from the calculation of Assumed Debt Service pursuant to clause (H), below), then such amounts as constitute Balloon Indebtedness shall be treated as if the principal amount of such Obligations were amortized from the date originally incurred in substantially equal installments of principal and interest over a term of 30 years; the interest rate used for such computation shall be the rate quoted in the most recently available short-term index of SIFMA, or if that index is no longer published, another similar index selected by the District, or if the District fails to select a replacement index, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Obligations on the date incurred, or if there are no such United States Treasury bonds having equivalent maturities, 80% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets;

(F) if any outstanding Obligations constitute Credit Enhanced Obligations or if Obligations proposed to be incurred would constitute Credit Enhanced Obligations, then Assumed Debt Service on such Obligations shall not be based upon the terms of any Reimbursement Obligations with respect to such Credit Enhanced Obligations except to the extent and for periods during which payments have been or will be required to be made pursuant to such Reimbursement Obligations due to the Credit Enhancer's having advanced funds for which it has not been fully reimbursed;

(G) if any outstanding Obligations constitute Option Securities, or if any Obligation Securities payable from or evidencing interests in any outstanding Obligations (or the Obligation Payments payable under and pursuant to such Obligations) constitute Option Securities, or if Obligations proposed to be incurred would constitute Option Securities, or if Obligation Securities payable from or evidencing interests in Obligations proposed to be incurred (or the Obligation Payments payable under and pursuant to such Obligations) would constitute Option Securities, then (x) Assumed Debt Service on such Obligations shall not include amounts payable upon exercise by the Obligation Security Owner of such Option Securities of the option to tender such Option Securities for payment to the extent and for so long as a Liquidity Backer is required to provide the moneys necessary for such payment, and (y) Assumed Debt Service on such Obligations shall not be based upon the terms of any Reimbursement Obligations with respect to such Option Securities except to the extent and for periods during which payments have been or will be required to be made pursuant to such Reimbursement Obligations due to the Liquidity Backer's having advanced funds for which it has not been fully reimbursed;

(H) if any outstanding Obligations constitute Short-Term Obligations or if Obligations proposed to be incurred would constitute Short-Term Obligations, and such Short-Term Obligations are or will be payable only out of Revenues of the Fiscal Year in which such Short-Term Obligations are incurred, then Debt Service on such Short-Term Obligations shall be disregarded and not included in calculating Assumed Debt Service;

(I) if any outstanding Obligation constitutes a Financial Contract, then amounts payable by the District under such Financial Contract shall be added to Assumed Debt Service and amounts receivable by the District under such Financial Contract shall be subtracted from Assumed Debt Service; if the interest rate applicable to payments receivable by the District under such Financial Contract is a variable rate, such variable rate shall be calculated in accordance with clause (C), above;

(J) if any Obligation proposed to be incurred will be a Financial Contract, then amounts payable by the District under such Financial Contract shall be added to Assumed Debt Service and amounts receivable by the District under such Financial Contract shall be subtracted from Assumed Debt Service; if the interest rate applicable to payments receivable by the District under such Financial Contract will be a variable rate, such variable rate shall be calculated in accordance with clause (D), above;

(K) if amounts constituting accrued interest or capitalized interest have been deposited with an Obligation Trustee for Obligation Securities, then the interest payable from such amounts with respect to (x) the Obligations constituting such Obligation Securities, (y) the Obligations (or Obligation Payments) from which debt service on such Obligation Securities is payable, and (z) the Obligations (or Obligation Payments) interests in which are evidenced by such Obligation Securities, shall be disregarded and not included in calculating Assumed Debt Service;

(L) if moneys or Defeasance Securities have been deposited by the District into a separate fund or account or are otherwise held by the District or by a fiduciary to be used to pay Debt Service on specified Obligations, or debt service on the Related Bonds of such Obligations, and such Obligations are discharged, or no longer outstanding, pursuant to the terms of the instrument under which they are issued or arise, then the Debt Service to be paid from such moneys or Defeasance Securities, or from the earnings thereon, shall be disregarded and not included in calculating Assumed Debt Service;

(M) if investment earnings on amounts on deposit in an Obligation Reserve Fund are, pursuant to the terms of the instrument under which such Obligation Reserve Fund was established, required to be transferred therefrom and used to pay, or used as a credit against the payment of, Debt Service on specified Obligations, or debt service on the Related Bonds of such Obligations, then the projected investment earnings on such amounts, based on a reasonably determined rate of return, expected to be so used during such period shall be deducted from the Obligation Payments for such Obligations during such period;

(N) the amount on deposit in an Obligation Reserve Fund on any date of calculation of Assumed Debt Service shall be deducted from the amount of principal due at the final maturity of the Obligations for which such Obligation Reserve Fund was established and in each preceding year until such amount is exhausted; and

(O) with respect to Obligation Payments that are not comprised of separate payments of interest and principal but which, rather, are required pursuant to the instrument under which



they arise to be paid in amounts sufficient to pay principal and interest on Related Bonds, for purposes of calculating Assumed Debt Service, interest payments and principal payments (whether at maturity or by redemption or prepayment) with respect to such Related Bonds shall be deemed to be interest payments and principal payments with respect to such Obligation Payments.

**“Authorized Corporation Representative”** means the President, the Vice President, the Treasurer and the Secretary of the Corporation, and any other Person authorized by the President of the Corporation to act on behalf of the Corporation under or with respect to the Trust Agreement.

**“Authorized Denominations”** means \$5,000 and integral multiples thereof.

**“Authorized District Representative”** means the General Manager of the District, the Director of Finance and Administrative Services of the District, the Controller of the District and any other Person authorized by the Director of Finance and Administrative Services of the District to act on behalf of the District under or with respect to the Trust Agreement.

**“Balloon Indebtedness”** means an Obligation, 50% or more of the principal of which matures or is payable on the same date and which is not required by the instrument pursuant to which such Obligation was incurred to be amortized by payment or redemption prior to such date.

**“Beneficial Owners”** means those individuals, partnerships, corporations or other entities for which the Participants have caused the Depository to hold Book-Entry Certificates.

**“Book-Entry Certificates”** means the Revenue Obligations registered in the name of the nominee of DTC, or any successor securities depository for the Revenue Obligations, as the Owner thereof pursuant to the terms and provisions of the Trust Agreement.

**“Bonds”** means Senior Bonds and Subordinate Bonds.

**“Business Day”** means a day other than (a) Saturday or Sunday, (b) a day on which banking institutions in the city in which the Principal Office is located are authorized or required by law to be closed, and (c) a day on which the New York Stock Exchange is authorized or obligated by law or executive order to be closed.

**“Capital Facilities Capacity Charge Eligible Project”** means any improvements to the Wastewater System, the acquisition, construction and installation of which could be properly paid from Capital Facilities Capacity Charges.

**“Capital Facilities Capacity Charges”** means connection, capacity and other similar fees imposed by the District as charges to pay for capacity in the Wastewater System.

**“Cede & Co.”** means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to the Revenue Obligations.

**“Certificate Year”** means each twelve-month period beginning on February 2 in each year and extending to the next succeeding February 1, both dates inclusive, except that the first Certificate Year shall begin on the Closing Date and end on February 1, 2012.

**“Closing Date”** means the date the Revenue Obligations are delivered.

**“Code”** means the Internal Revenue Code of 1986.

**“Consultant”** means the consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm retained by the District to perform the acts and carry out the duties provided for such consultant in the Master Agreement, in an Obligation, in an Obligation Security or an Issuing Instrument. Such consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm shall be recognized within its profession for work of the character required.

**“Continuing Disclosure Agreement”** means the Continuing Disclosure Agreement, dated as of October 1, 2011, by and between the District and Digital Assurance Certification LLC, as originally executed and as it may from time to time be amended in accordance with the terms thereof.

**“Corporation”** means the Orange County Sanitation District Financing Corporation, a nonprofit public benefit corporation organized and existing under the laws of the State.

**“Costs of Issuance”** means all the costs of executing and delivering the Revenue Obligations, including, but not limited to, all printing and document preparation expenses in connection with the Trust Agreement, the Installment Purchase Agreement, the Revenue Obligations and any preliminary official statement and final official statement pertaining to the Revenue Obligations, fees of a financial advisor, rating agency fees, market study fees, legal fees and expenses of counsel with respect to the execution and delivery of the Revenue Obligations, the initial fees and expenses of the Trustee and its counsel and other fees and expenses incurred in connection with the execution and delivery of the Revenue Obligations, to the extent such fees and expenses are approved by the District.

**“Costs of Issuance Fund”** means the fund by that name established in accordance with the Trust Agreement.

**“Credit Enhanced Obligations”** means Obligations, the payments with respect to which, or the payments with respect to Related Bonds of which, are secured by a Credit Facility.

**“Credit Enhancer”** means the Person issuing the Credit Facility securing payments with respect to Credit Enhanced Obligations or Related Bonds of such Credit Enhanced Obligations.

**“Credit Facility Agreement”** means the agreement or arrangement pursuant to which a Credit Enhancer or Liquidity Backer is required to be reimbursed for draws on or payments under the Credit Facility issued by such Credit Enhancer or Liquidity Backer.

**“Credit Facility Costs”** means any periodic fees and expenses payable to a Credit Enhancer or Liquidity Backer in consideration of such Person’s providing the Credit Facility issued by such Person.

**“Credit Facility”** means an irrevocable letter of credit, surety bond, insurance policy or other credit facility (a) securing payments with respect to Credit Enhanced Obligations, or Related Bonds of such Credit Enhanced Obligations, or (b) providing for amounts payable upon the optional or mandatory tender of an Option Security by the Obligation Security Owner thereof.

**“Debt Service”** means, for any period, (a) for any Obligation other than Bonds, that portion of the Obligation Payments for such Obligation required to be made in such period, and (b) for Bonds, the sum of (i) the interest payable during such period on all such Outstanding Bonds, assuming that all Outstanding serial Bonds are retired as scheduled and that all Outstanding term Bonds are redeemed or paid from sinking fund payments as scheduled, (ii) that portion of the principal amount of all such

Outstanding serial Bonds maturing on any principal payment date which falls in such period, and (iii) that portion of the principal amount of all Outstanding term Bonds required to be redeemed or paid on any redemption date which falls in such period (together with the redemption premiums, if any, thereon); provided, however, that, (A) if amounts constituting accrued interest or capitalized interest have been deposited with an Obligation Trustee for Obligation Securities, then the interest payable from such amounts with respect to (x) the Obligations constituting such Obligation Securities, (y) the Obligations (or Obligation Payments) from which debt service on such Obligation Securities is payable, and (z) the Obligations (or Obligation Payments) interests in which are evidenced by such Obligation Securities, shall be disregarded and not included in calculating Debt Service, (B) if moneys or Defeasance Securities have been deposited by the District into a separate fund or account or are otherwise held by the District or by a fiduciary to be used to pay Debt Service on specified Obligations, or debt service on the Related Bonds of such Obligations, and such Obligations are discharged, or no longer outstanding, pursuant to the terms of the instrument under which they are issued or arise, then the Debt Service to be paid from such moneys or Defeasance Securities, or from the earnings thereon, shall be disregarded and not included in calculating Debt Service, (C) if investment earnings on amounts on deposit in an Obligation Reserve Fund are, pursuant to the terms of the instrument under which such Obligation Reserve Fund was established, required to be transferred therefrom and used to pay, or used as a credit against the payment of, Debt Service on specified Obligations, or debt service on the Related Bonds of such Obligations, then the amount so transferred and used during such period shall be deducted from the Obligation Payments for such Obligations during such period, (D) the amount on deposit in an Obligation Reserve Fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the Obligations for which such Obligation Reserve Fund was established and in each preceding year until such amount is exhausted, and (E) with respect to Obligation Payments that are not comprised of separate payments of interest and principal but which, rather, are required pursuant to the instrument under which they arise to be paid in amounts sufficient to pay principal and interest on Related Bonds, for purposes of calculating Debt Service, interest payments and principal payments (whether at maturity or by redemption or prepayment) with respect to such Related Bonds shall be deemed to be interest payments and principal payments with respect to such Obligation Payments.

**“Depository”** means the securities depository acting as Depository pursuant to the Trust Agreement.

**“District”** means the Orange County Sanitation District, a county sanitation district organized and existing under the laws of the State, and any successor thereto.

**“DTC”** means The Depository Trust Company, New York, New York and its successors.

**“Financial Contract”** means any interest rate swap agreement, currency swap agreement, forward payment conversion agreement, future or contract entered into by the District with respect to any Obligation providing for payment based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, or a contract entered into by the District with respect to any Obligation to exchange cash flows or a series of payments, or a contract entered into by the District with respect to any Obligation, including, without limitation, interest rate floors or caps, options, rates or calls, to hedge payment, currency, rate, spread, or similar exposure or any similar contract entered into by the District with respect to any Obligation.

**“Fiscal Year”** means, with respect to the District, the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period selected and designated as the official Fiscal Year of the District.

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

**“Government Obligations”** means any of the following which are noncallable by the issuer thereof except to the extent not permitted by the laws of the State as an investment for the moneys to be invested therein at the time of investment:

(i) (a) direct general obligations of the United States of America, (b) obligations the payment of the principal of and interest on which are unconditionally guaranteed as to the full and timely payment by the United States of America, or (c) any fund or other pooling arrangement whose assets consist exclusively of the obligations listed in clause (a) or (b) of this clause (i) and which is rated at least “P-1” by Moody’s; provided that, such obligations shall not include unit investment trusts or mutual fund obligations;

(ii) advance refunded tax-exempt obligations that (a) are rated by Moody’s and S&P, (b) are secured by obligations specified in clause (i), (c) are tax-exempt because they are secured by obligations specified in clause (i), and (d) have the same ratings as the obligations specified in clause (i);

(iii) bonds, debentures or notes issued by any of the following federal agencies: Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation or Federal National Mortgage Association; provided, that such bonds, debentures or notes shall be the senior obligations of such agencies (including participation certificates) and have the same ratings by Moody’s and S&P as the obligations specified in clause (i); and

(iv) bonds, debentures or notes issued by any Federal agency hereafter created by an act of Congress, the payment of the principal of and interest on which are unconditionally guaranteed by the United States of America as to the full and timely payment; provided, that, such obligations shall not include unit investment trusts or mutual fund obligations.

**“Installment Payments Date”** means each February 1 or August 1, as applicable.

**“Installment Payment Fund”** means the fund by that name established in accordance with the Trust Agreement.

**“Installment Payments”** means the Installment Payments required to be made by the District pursuant to the Installment Purchase Agreement.

**“Installment Purchase Agreement”** means the Installment Purchase Agreement, dated as of October 1, 2011, by and between the District and the Corporation, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

**“Installment Purchase Agreement Event of Default”** means an event described under the heading “Installment Purchase Agreement Events of Default” and as provided in the Installment Purchase Agreement. See “THE INSTALLMENT PURCHASE AGREEMENT – Events of Default and Remedies of the Corporation – *Events of Default*.”

**“Interest Account”** means the account by that name within the Installment Payment Fund established in accordance with the Trust Agreement.

**“Interest Payment Date”** means February 1 and August 1 of each year, commencing February 1, 2012.

**“IRWD Agreement”** means the Agreement Acquiring Ownership Interests, Assigning Rights and Establishing Obligations, entered into on February 13, 1986, by and between County Sanitation District No. 14 of Orange County and the Irvine Ranch Water District, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

**“Issuing Instrument”** means, with respect to Obligation Securities (a) if such Obligation Securities are Bonds, the indenture, trust agreement, fiscal agent agreement or other instrument pursuant to which such Bonds are issued, (b) if such Obligation Securities are Related Bonds, the indenture, trust agreement, fiscal agent agreement or other instrument pursuant to which such Related Bonds are issued, (c) if such Obligation Securities are a Contract, such Contract, and (d) if such Obligation Securities are Senior Certificates or Subordinate Certificates, the trust agreement or other instrument pursuant to which such Senior Certificates or Subordinate Certificates are executed and delivered.

**“Letter of Representations”** means the letter of the District delivered to and accepted by the Depository on or prior to the delivery of the Revenue Obligations 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 to a substitute Depository.

**“Liquidity Backer”** means the Person issuing the Credit Facility providing for amounts payable upon the optional or mandatory tender of an Option Security by the Obligation Security Owner thereof.

**“Maintenance and Operations Costs”** means, for any period, the costs paid by the District during such period for maintaining and operating the Wastewater System, calculated in accordance with Generally Accepted Accounting Principles, including (among other things) all expenses necessary to maintain and preserve the Wastewater System in good repair and working order, all administrative costs allocable to the operation of the Wastewater System, such as salaries and wages of employees, payments to its employee retirement systems (to the extent paid from Revenues), overhead, taxes (if any), insurance premiums, fees of auditors, accountants, attorneys or engineers, and all Administrative Costs paid by the District during such period, 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 Wastewater 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 any debt service on Obligations of the District.

**“Mandatory Sinking Account Payment”** means the amount required to be deposited by the District in the Principal Account for the prepayment of Term Revenue Obligations pursuant to the Trust Agreement.

**“Master Agreement”** means the Master Agreement for District Obligations, dated as of August 1, 2000, by and between the District and the Corporation, as originally executed and as it may from time to time be amended or supplemented in accordance with the terms thereof.

**“Master Agreement Event of Default”** means an event described under the heading “Master Agreement Events of Default.”

**“Maximum Annual Debt Service”** means, as of any date, with respect to Obligations, the maximum amount of Assumed Debt Service on such Obligations in the then current or any future Fiscal Year.

**“Moody’s”** means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, except that if such corporation shall no longer perform the function of a securities rating agency for any reason, the term “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the District.

**“Net Operating Revenues”** means for any period, the Operating Revenues for such period, less the Maintenance and Operations Costs for such period.

**“Net Proceeds”** means, when used with respect to any insurance, self 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 period, the Revenues for such period, less the Maintenance and Operations Costs for such period.

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

**“Obligation Payments”** means Senior Obligation Payments and Subordinate Obligation Payments.

**“Obligation Reserve Fund”** means, with respect to Obligation Securities, any debt service reserve fund or account held by the Obligation Trustee for such Obligation Securities and established to secure the payment of such Obligation Securities or the payment of the Obligation Payments payable under and pursuant to the Obligations, interests in which are evidenced by such Obligation Securities.

**“Obligation Securities”** means Senior Obligation Securities and Subordinate Obligation Securities.

**“Obligation Security Owner”** means, with respect to an Obligation Security, the Person who is, or who is deemed to be, the owner of such Obligation Security, as determined pursuant to the provisions of such Obligation Security or the Issuing Instrument pursuant to which such Obligation Security is issued, incurred or executed and delivered.

**“Obligation Trustees”** means Senior Obligation Trustees and Subordinate Obligation Trustees. “Obligations” means Senior Obligations and Subordinate Obligations.

**“Obligations”** means Senior Obligations and Subordinate Obligations.

**“Operating Revenues”** means, for any period, all income and revenue received by the District during such period from the operation or ownership of the Wastewater System, determined in accordance with Generally Accepted Accounting Principles, including all fees and charges received during such period for the services of the Wastewater System, investment income received during such period (but only to the extent that such investment income is generally available to pay costs with respect to the Wastewater System, including Maintenance and Operations Costs), Net Proceeds of business interruption insurance received during such period, Ad Valorem Taxes received during such period, payments under the IRWD Agreement received during such period and all other money received during such period

howsoever derived by the District from the operation or ownership of the Wastewater System or arising from the Wastewater System (including any standby or availability charges), but excluding (a) Capital Facilities Capacity Charges, (b) payments received under Financial Contracts, and (c) refundable deposits made to establish credit and advances or contributions in aid of construction (which, for purposes of the Master Agreement, shall not include payments under the IRWD Agreement); provided, however, that Operating Revenues shall include Capital Facilities Capacity Charges collected during such period to the extent that such Capital Facilities Capacity Charges could be properly expended on a Capital Facilities Capacity Charge Eligible Project for which the proceeds of Subject Obligations were used or are available to be used.

**“Opinion of Counsel”** means a written opinion of Fulbright & Jaworski L.L.P. or any other counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the District.

**“Option Securities”** means Obligation Securities which by their terms, or by the terms of the Issuing Instrument pursuant to which they were issued, incurred or executed and delivered, may be or are required to be tendered by the Obligation Security Owner thereof for payment or purchase by the District or a third party prior to the stated maturity thereof.

**“Outstanding,”** when used as of any particular time with reference to Revenue Obligations, means (subject to the Trust Agreement as described herein under the caption “THE TRUST AGREEMENT – Amendment of or Supplement to Trust Agreement – *Disqualified Revenue Obligations*”) all Revenue Obligations except (a) Revenue Obligations previously canceled by the Trustee or delivered to the Trustee for cancellation, (b) Revenue Obligations paid or deemed to have been paid as described herein under the caption “THE TRUST AGREEMENT – Defeasance – *Discharge of Revenue Obligations and Trust Agreement*” and (c) Revenue Obligations in lieu of or in substitution for which other Revenue Obligations shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

**“Owner”** means any Person who shall be the registered owner of any Outstanding Revenue Obligation as indicated in the registration books of the Trustee required to be maintained pursuant to the Trust Agreement.

**“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.

**“Participating Underwriter”** has the meaning ascribed thereto in the Continuing Disclosure Agreement.

**“Permitted Encumbrances”** means, with respect to the Wastewater System or any part thereof (a) liens for taxes or other governmental charges or levies not delinquent or that are being contested in good faith by the District, (b) covenants, easements, encumbrances, defects of title, reservations, restrictions and conditions existing at the time of delivery of the Senior Certificates or Subordinate Certificates, (c) defects, irregularities, encumbrances, easements, including easements for roads and public utilities and similar easements, rights of way, mineral conveyances, mineral reservations and clouds on title that do not materially impair the use of the property affected thereby for its intended purposes, (d) mechanics’, workers’, repairmen’s, architects’, engineers’, surveyors’, or carriers’ liens or other similar liens provided that the same shall be discharged in the ordinary course of business and without undue delay or the validity of the same shall be contested in good faith with any pending execution thereof appropriately stayed, (e) other liens, charges and encumbrances that, in the written opinion of counsel to the District, a copy of which is filed with each Obligation Trustee, do not materially

impair the use of the Wastewater System (for purposes of the Master Agreement, counsel to the District may rely upon a certificate of any engineer or any architect as to whether such liens, charges and encumbrances prevent or materially impair the use of the Wastewater System), and (f) encumbrances on property, plant and equipment comprising a part of the Wastewater System to the extent permitted by the Master Agreement.

**“Permitted Investments”** means any of the following, except to the extent not permitted by the laws of the State as an investment for the moneys to be invested therein at the time of investment:

(1) Government Obligations;

(2) Bonds, debentures, notes, participation certificates or other evidences of indebtedness issued, or the principal of and interest on which are unconditionally guaranteed, by the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Government National Mortgage Association or any other agency or instrumentality of or corporation wholly owned by the United States of America when such obligations are backed by the full faith and credit of the United States for the full and timely payment of principal and interest;

(3) Obligations of any state of the United States or any political subdivision thereof, which at the time of investment are rated “Aa3” or higher by Moody’s and “AA-” or higher by S&P; or which are rated by Moody’s “VMIG1” or better and by S&P “A-1+” or better with respect to commercial paper, or “VMIG1” and “SP-1”, respectively, with respect to municipal notes;

(4) Bank time deposits evidenced by certificates of deposit, deposit accounts, and bankers’ acceptances, issued by any bank, trust company or national banking association insured by the Federal Deposit Insurance Corporation (including the Trustee); provided that (a) such bank, trust company, or national banking association be rated “Aa3” or better by Moody’s and “AA-” or better by S&P; and (b) the aggregate of such bank time deposits and bankers’ acceptances issued by any bank, trust company or banking association does not exceed at any one time 10% of the aggregate of the capital stock, surplus and undivided profits of such bank, trust company or banking association and that such capital stock, surplus and undivided profits shall not be less than \$15,000,000;

(5) Repurchase agreements with any bank, trust company or national banking association insured by the Federal Deposit Insurance Corporation (including the Trustee), with subsidiaries (of a parent company), provided the obligations of the subsidiary under the agreement are unconditionally guaranteed by the parent, or with any government bond dealer recognized as a primary dealer by the Federal Reserve Bank of New York, which agreements are fully and continuously secured by a valid and perfected first priority security interest in obligations described in paragraph (1) or (2) of this definition, provided that either such bank, trust company or national banking association which (or senior debt or claims paying ability of the financial entity’s guarantor) is rated, at the time of investment, “Aa3” or better by Moody’s and “AA-” or better by S&P;

(6) Repurchase agreements with maturities of not more than one year entered into with financial institutions such as banks or trust companies organized under state law or national banks or banking associations (including the Trustee), insurance companies, or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and a member of the Securities Investor Protection Corporation or with a dealer or parent holding company that is rated, at the time of investment, or whose long-term debt



obligations (or senior debt or claims paying ability of the financial entity's guarantor) are rated, at the time of investment, "Aa3" or better by Moody's and "AA-" or better by S&P, provided such repurchase agreements are in writing, secured by obligations described in paragraphs (1) and (2) of this definition having a fair market value, exclusive of accrued interest, at least equal to the amount invested in the repurchase agreements and in which the Trustee has a perfected first lien in, and retains possession of, such obligations free from all third party claims;

(7) Investment agreements, forward purchase agreements and reserve fund put agreements with any corporation, including banking or financial institutions, or agreements entered into with subsidiaries (of a parent company), provided the obligations of the subsidiary under the agreement are unconditionally guaranteed by the parent, the corporate debt of which (or senior debt or claims paying ability of the financial entity's guarantor) is rated, at the time of investment, "Aa3" or better by Moody's and "AA-" or better by S&P;

(8) Guaranteed investment contracts or similar funding agreements issued by insurance companies, provided that either the long term corporate debt of such insurance company, at the time of investment, is rated, at the time of investment, "Aa3" or better by Moody's and "AA-" or better by S&P or which agreements are fully and continuously secured by a valid and perfected first priority security interest in obligations described in paragraph (1) or (2) of this definition, or that the following conditions are met: (a) the market value of the collateral is maintained at levels acceptable to Moody's and S&P, (b) the Trustee or a third party acting solely as agent for the Trustee has possession of the collateral, (c) the Trustee has a perfected first priority security interest in the collateral, (d) the collateral is free and clear of third-party liens, and (e) failure to maintain the requisite collateral level will require the Trustee to liquidate collateral;

(9) Corporate commercial paper rated "P-1" or better by Moody's and "A-1+" or better by S&P at the time of investment;

(10) Taxable government money market portfolios which are rated "AAAm" or "AAAm-G" by S&P and "P-1" by Moody's (including funds for which the Trustee or an affiliate provides investment advice or similar services);

(11) Deposits with the Local Agency Investment Fund of the State, as may otherwise be permitted by law; and

(12) Shares in the Franklin Adjustable U.S. Government Securities Fund or any other similar fund having at least \$1,000,000,000 in assets and invested solely in securities directly guaranteed by the U.S. government or its agencies and rated "AAAf" by S&P or a comparable rating by Moody's.

**"Person"** means an individual, corporation, limited liability company, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

**"Prepayment Account"** means the account by that name within the Installment Payment Fund established in accordance with the Trust Agreement.

**"Principal Account"** means the account by that name within the Installment Payment Fund established in accordance with the Trust Agreement.

**“Principal Amount”** means, with respect to Obligation Securities (a) if such Obligation Securities are Bonds, the principal amount of such Bonds, as determined pursuant to the provisions of such Bonds or the Issuing Instrument pursuant to which such Bonds are issued, (b) if such Obligation Securities are Related Bonds, the principal amount of such Related Bonds, as determined pursuant to the provisions of such Related Bonds or the Issuing Instrument pursuant to which such Related Bonds are issued, (c) if such Obligation Securities are a Contract, the principal amount of such Contract, or the principal amount of the Contract Payments payable under and pursuant to such Contract, as determined pursuant to the provisions of such Contract, and (d) if such Obligation Securities are Senior Certificates or Subordinate Certificates, the principal amount of the Contract, or the principal amount of the Contract Payments payable under and pursuant to such Contract, evidenced by such Senior Certificates or Subordinate Certificates, as determined pursuant to the provisions of such Senior Certificates or Subordinate Certificates or the Issuing Instrument pursuant to which such Senior Certificates or Subordinate Certificates are executed and delivered.

**“Principal Office”** means the Trustee’s principal corporate trust office in Los Angeles, California.

**“Principal Payment Date”** means a date on which an Installment Payment evidenced by the Revenue Obligations becomes due and payable.

**“Project”** means the improvements to the Wastewater System to be acquired, constructed and installed pursuant to the Installment Purchase Agreement, as described in Exhibit A thereto.

**“Record Date”** means, with respect to the interest payable on any Interest Payment Date, the 15th day of the calendar month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

**“Refunded Certificates”** means, collectively, the Refunded Series 2000 Certificates and the Refunded Series 2003 Certificates.

**“Refunded Series 2000 Certificates”** means, collectively, the Series 2000-A Certificates in the aggregate principal amount of \$42,400,000 and the Series 2000-B Certificates in the aggregate principal amount of \$47,400,000.

**“Refunded Series 2003 Certificates”** means \$83,320,000 in aggregate principal amount of the Series 2003 Certificates maturing in the years February 1, 2022 through 2026, inclusive.

**“Reimbursement Obligation”** means the obligation of the District, arising pursuant to a Credit Facility Agreement or otherwise, to repay amounts drawn on or paid under a Credit Facility, to pay interest on such amounts and to pay any other amounts in connection with such draw or payment; provided, however, that no portion of any such obligation shall be deemed to be a Reimbursement Obligation if the payment thereof would duplicate any amount payable to the Credit Enhancer or Liquidity Backer that issued such Credit Facility in such Credit Enhancer or Liquidity Backer’s capacity as Obligation Security Owner of an Obligation Security.

**“Related Bonds”** means, with respect to particular Obligations, bonds, notes or other obligations of a Person other than the District, the debt service on which is payable from Obligation Payments for such Obligations.

**“Revenues”** means, for any period, all income and revenue received by the District during such period from the operation or ownership of the Wastewater System, determined in accordance with Generally Accepted Accounting Principles, including all fees and charges received during such period for the services of the Wastewater System, investment income received during such period (but only to the extent that such investment income is generally available to pay costs with respect to the Wastewater System, including Maintenance and Operations Costs), Net Proceeds of business interruption insurance received during such period, Ad Valorem Taxes received during such period, payments under the IRWD Agreement received during such period and all other money received during such period howsoever derived by the District from the operation or ownership of the Wastewater System or arising from the Wastewater System (including any standby or availability charges), but excluding (a) Capital Facilities Capacity Charges, (b) payments received under Financial Contracts, and (c) refundable deposits made to establish credit and advances or contributions in aid of construction (which, for purposes of the Master Agreement, shall not include payments under the IRWD Agreement); provided, however, that (i) Revenues shall be increased by the amounts, if any, transferred during such period from the Rate Stabilization Account to the Revenue Account and shall be decreased by the amounts, if any, transferred during such period from the Revenue Account to the Rate Stabilization Account, and (ii) Revenues shall include Capital Facilities Capacity Charges collected during such period to the extent that such Capital Facilities Capacity Charges could be properly expended on a Capital Facilities Capacity Charge Eligible Project for which the proceeds of Subject Obligations were used or are available to be used.

**“Revenue Obligations”** means the Orange County Sanitation District Wastewater Refunding Revenue Obligations, Series 2011A, executed and delivered by the Trustee, which are certificates of participation, evidencing direct, undivided fractional interests in the Installment Payments, and the interest thereon.

**“Senior Bonds”** mean all revenue bonds or notes (including bond anticipation notes and commercial paper) of the District authorized, executed, issued and delivered under and pursuant to applicable law, the payments of which are, in accordance with the provisions of the Master Agreement, payable from Net Revenues on a parity with the Senior Contract Payments.

**“Senior Certificates”** means certificates of participation, receipts or other instruments evidencing interests in a Senior Contract, or in the Senior Contract Payments payable under and pursuant to such Senior Contract.

**“Senior Contract Payments”** means the installment, lease or other payments of interest and principal or, if there are no separate payments of interest and principal, the installment, lease or other payments, payable by the District under and pursuant to its Senior Contracts.

**“Senior Contracts”** means all contracts (including Financial Contracts) or leases of the District authorized and executed by the District under and pursuant to applicable law, the installment, lease or other payments under which are, in accordance with the provisions of the Master Agreement, payable from Net Revenues on a parity with Senior Bonds.

**“Senior Obligation Payments”** means (a) the debt service payments payable by the District under and pursuant to Senior Bonds, and (b) Senior Contract Payments.

**“Senior Obligation Securities”** means, with respect to particular Senior Obligations (a) if such Senior Obligations are Senior Bonds that do not have Related Bonds, such Senior Bonds, (b) if such Senior Obligations are Senior Bonds that do have Related Bonds, such Related Bonds, (c) if such Senior Obligations are a Senior Contract (i) that does not have Related Bonds, and (ii) interests in which, or interests in the Senior Contract Payments payable under and pursuant to which, are not evidenced by

Senior Certificates, such Senior Contract, (d) if such Senior Obligations are a Senior Contract that does have Related Bonds, such Related Bonds, and (e) if such Senior Obligations are a Senior Contract, interests in which, or interests in the Senior Contract Payments payable under and pursuant to which, are evidenced by Senior Certificates, such Senior Certificates.

**“Senior Obligation Trustee”** means, with respect to Senior Obligation Securities, the trustee, fiscal agent or other fiduciary authorized to act for the benefit and on behalf of the Owners of such Senior Obligation Securities.

**“Senior Obligations”** means Senior Bonds and Senior Contracts.

**“Short-Term Obligations”** means Obligations having an original maturity of less than or equal to one year and which are riot renewable at the option of the District for a term greater than one year beyond the date of original incurrence.

**“SIFMA”** means the Securities Industry and Financial Markets Association, and its successors.

**“Subject Obligations”** means, for any period, Obligations, any portion of the proceeds of which were expended or are available to be expended for a Capital Facilities Capacity Charge Eligible Project, and with respect to which (a) any portion of such Obligations were outstanding during such period, or (b) if such Obligations were refunded with the proceeds of refunding Obligations, any portion of such refunding Obligations were outstanding during such period.

**“Subordinate Bonds”** means all revenue bonds or notes (including bond anticipation notes and commercial paper) of the District authorized, executed, issued and delivered under and pursuant to applicable law, the payments of which are, in accordance with the provisions of the Master Agreement, payable from Net Revenues remaining after payment therefrom of the District’s Senior Obligation Payments, on a parity with the District’s Subordinate Contract Payments.

**“Subordinate Certificates”** means certificates of participation, receipts or other instruments evidencing interests in a Subordinate Contract, or in the Subordinate Contract Payments payable under and pursuant to such Subordinate Contract.

**“Subordinate Contract Payments”** means the installment, lease or other payments of interest and principal or, if there are no separate payments of interest and principal, the installment, lease or other payments, payable by the District under and pursuant to its Subordinate Contracts.

**“Subordinate Contracts”** means all contracts (including Financial Contracts) or leases of the District authorized and executed by the District under and pursuant to applicable law, the installment, lease or other payments under which are, in accordance with the provisions of the Master Agreement, payable from the Net Revenues remaining after payment therefrom of the District’s Senior Obligation Payments, on a parity with the District’s Subordinate Bonds.

**“Subordinate Obligation Payments”** means (a) the debt service payments payable by the District under and pursuant to Subordinate Bonds, and (b) Subordinate Contract Payments.

**“Subordinate Obligation Securities”** means, with respect to particular Subordinate Obligations (a) if such Subordinate Obligations are Subordinate Bonds that do not have Related Bonds, such Subordinate Bonds, (b) if such Subordinate Obligations are Subordinate Bonds that do have Related Bonds, such Related Bonds, (c) if such Subordinate Obligations are a Subordinate Contract (1) that does not have Related Bonds, and (ii) interests in which, or interests in the Subordinate Contract Payments

payable under and pursuant to which, are not evidenced by Subordinate Certificates, such Subordinate Contract, (d) if such Subordinate Obligations are a Subordinate Contract that does have Related Bonds, such Related Bonds, and (e) if such Subordinate Obligations are a Subordinate Contract, interests in which, or interests in the Subordinate Contract Payments payable under and pursuant to which, are evidenced by Subordinate Certificates, such Subordinate Certificates.

**“Subordinate Obligation Trustee”** means, with respect to Subordinate Obligation Securities, the trustee, fiscal agent or other fiduciary authorized to act for the benefit and on behalf of the Owners of such Subordinate Obligation Securities.

**“Subordinate Obligations”** means Subordinate Bonds and Subordinate Contracts.

**“S&P”** means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, except that if such entity shall no longer perform the functions of a securities rating agency for any reason, the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the District.

**“State”** means the State of California.

**“Term Revenue Obligations”** means Revenue Obligations payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Revenue Obligations on or before their specified maturity date or dates.

**“Trust Agreement”** means the Trust Agreement, dated as of October 1, 2011, by and among the Trustee, the Corporation and the District, as originally executed and delivered and as it may from time to time be amended or supplemented in accordance with the provisions of the Trust Agreement.

**“Trustee”** means Union Bank, N.A., a national banking association duly organized and existing under the laws of the United States of America, or any other bank or trust company which may at any time be substituted in its place as provided in the Trust Agreement.

**“Variable Rate Indebtedness”** means any portion of any Obligation the interest rate on which is not established at the time of incurring such Obligation and has not, at some subsequent date, been established at a rate which is not subject to fluctuation or subsequent adjustment.

**“Wastewater System”** means the whole and each and every part of the wastewater collection, treatment and disposal facilities of the District, all real and personal property, or any interest therein, constituting a part thereof and all additions, improvements, betterments and extensions thereto, whether existing as of the date of the Master Agreement or subsequently acquired, constructed or installed.

**“Written Certificate”** and **“Written Request”** mean (a) with respect to the Corporation, a written certificate or written request, respectively, signed in the name of the Corporation by an Authorized Corporation Representative, and (b) with respect to the District, a written certificate or written request, respectively, signed in the name of the District by an Authorized District Representative. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

## THE TRUST AGREEMENT

### Terms and Conditions of Revenue Obligations

*Preparation and Delivery of Revenue Obligations.* The Trustee is pursuant to the Trust Agreement authorized and directed to prepare the Revenue Obligations and, upon the Written Request of the District, to execute and deliver the Revenue Obligations in the aggregate principal amount of \$147,595,000, evidencing the aggregate principal amount of the Installment Payments and each evidencing a direct, fractional undivided interest in the Installment Payments, and the interest thereon. The Installment Payments evidenced by each Revenue Obligation shall constitute the principal evidenced thereby and the interest on such Installment Payments shall constitute the interest evidenced thereby. The Revenue Obligations shall be numbered, with or without prefixes, as directed by the Trustee.

*Denomination, Medium and Dating of Revenue Obligations.* The Revenue Obligations shall be designated "Orange County Sanitation District Wastewater Refunding Revenue Obligations, Series 2011A" and shall be prepared in the form of fully registered Revenue Obligations, without coupons, in Authorized Denominations and shall be payable in lawful money of the United States of America.

The Revenue Obligations shall be dated as of the Closing Date. Each Revenue Obligation shall evidence interest from the Interest Payment Date next preceding its date of execution to which interest has been paid in full, unless such date of execution shall be after a Record Date and on or prior to the following Interest Payment Date, in which case such Revenue Obligation shall evidence interest from such Interest Payment Date, or unless such date of execution shall be on or prior to January 15, 2012, in which case such Revenue Obligation shall represent interest from the Closing Date. Notwithstanding, the foregoing, if, as shown by the records of the Trustee, interest evidenced by the Revenue Obligations shall be in default, each Revenue Obligation shall evidence interest from the last Interest Payment Date to which such interest has been paid in full or duly provided for.

*Payment Dates of Revenue Obligations; Interest Computation.* The principal evidenced by the Revenue Obligations shall become due and payable, subject to prior prepayment, on February 1 or August 1, as applicable, of the years, in the amounts, and shall evidence interest accruing at the rates per annum set forth in the Trust Agreement.

Except as otherwise provided in the Letter of Representations, payments of interest evidenced by the Revenue Obligations shall be made to the Owners thereof (as determined at the close of business on the Record Date next preceding the related Interest Payment Date) by check or draft of the Trustee mailed to the address of each such Owner as it appears on the registration books maintained by the Trustee pursuant to the Trust Agreement, or to such other address as may be furnished in writing to the Trustee by each such Owner. Except as otherwise provided in the Letter of Representations, payment of principal and prepayment premium, if any, evidenced by the Revenue Obligations, on their stated Principal Payment Dates or on prepayment in whole or in part prior thereto, shall be made only upon presentation and surrender of the Revenue Obligations at the Principal Office.

The interest evidenced by the Revenue Obligations shall be payable on each Interest Payment Date to and including their respective Principal Payment Dates or prepayment prior thereto, and shall represent the sum of the interest on the Installment Payments coming due on the Interest Payment Dates in each year. The principal evidenced by the Revenue Obligations shall be payable on their respective Principal Payment Dates in each year and shall represent the Installment Payments coming due on the Principal Payment Dates in each year. Interest evidenced by the Revenue Obligations shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

*Transfer and Payment of Revenue Obligations; Exchange of Revenue Obligations.* Each Revenue Obligation is transferable by the Owner thereof, in person or by his attorney duly authorized in writing, at the Principal Office, on the registration books maintained by the Trustee pursuant to the provisions of the Trust Agreement, upon surrender of such Revenue Obligation for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee. The Trustee may treat the Owner of any Revenue Obligation as the absolute owner of such Revenue Obligation for all purposes, whether or not the principal or interest evidenced by such Revenue Obligation shall be overdue, and the Trustee shall not be affected by any knowledge or notice to the contrary; and payment of the interest and principal evidenced by such Revenue Obligation shall be made only to such Owner, which payments shall be valid and effectual to satisfy and discharge the liability evidenced by such Revenue Obligation to the extent of the sum or sums so paid.

Whenever any Revenue Obligation shall be surrendered for transfer, the Trustee shall execute and deliver a new Revenue Obligation or Revenue Obligations evidencing principal in the same aggregate amount and having the same stated Principal Payment Date. The Trustee shall require the payment by any Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Each Revenue Obligation may be exchanged at the Principal Office for Revenue Obligations evidencing principal in a like aggregate principal amount having the same stated Principal Payment Date in such Authorized Denominations as the Owner thereof may request. The Trustee shall 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.

*Revenue Obligation Registration Books.* The Trustee shall keep at its Principal Office sufficient books for the registration and transfer of the Revenue Obligations, which books shall be available for inspection and copying by the District at reasonable hours and under reasonable conditions; and upon presentation for such purpose the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer the Revenue Obligations on such books as provided in the Trust Agreement.

*Temporary Revenue Obligations.* The Revenue Obligations may be initially delivered in temporary form exchangeable for definitive Revenue Obligations when ready for delivery, which temporary Revenue Obligations shall be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Trustee, shall be in fully registered form and shall contain such reference to any of the provisions of the Trust Agreement as may be appropriate. Every temporary Revenue Obligation shall be executed and delivered by the Trustee upon the same conditions and terms and in substantially the same manner as definitive Revenue Obligations. If the Trustee executes and delivers temporary Revenue Obligations, it shall prepare and execute definitive Revenue Obligations without delay, and thereupon the temporary Revenue Obligations may be surrendered at the Principal Office in exchange for such definitive Revenue Obligations, and until so exchanged such temporary Revenue Obligations shall be entitled to the same benefits under the Trust Agreement as definitive Revenue Obligations executed and delivered under the Trust Agreement.

*Revenue Obligations Mutilated, Lost, Destroyed or Stolen.* If any Revenue Obligation shall become mutilated, the Trustee, at the expense of the Owner thereof, shall execute and deliver a new Revenue Obligation evidencing a like principal amount and having the same stated Principal Payment Date and number in exchange and substitution for the Revenue Obligation so mutilated, but only upon surrender to the Trustee of the Revenue Obligation so mutilated. Every mutilated Revenue Obligation so surrendered to the Trustee shall be canceled by it. If any Revenue Obligation shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the Trustee, at the

expense of the Owner thereof, shall execute and deliver a new Revenue Obligation evidencing a like principal amount and having the same stated Principal Payment Date, numbered as the Trustee shall determine, in lieu of and in substitution for the Revenue Obligation so lost, destroyed or stolen. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Revenue Obligation executed and delivered by it under the Trust Agreement and of the expenses which may be incurred by it under the Trust Agreement. Any Revenue Obligation executed and delivered under the provisions of the Trust Agreement in lieu of any Revenue Obligation alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Trust Agreement with all other Revenue Obligations executed and delivered under the Trust Agreement, and the Trustee shall not be required to treat both the original Revenue Obligation and any replacement Revenue Obligation as being Outstanding for the purpose of determining the amount of Revenue Obligations which may be executed and delivered under the Trust Agreement or for the purpose of determining any percentage of Revenue Obligations Outstanding under the Trust Agreement, but both the original and replacement Revenue Obligation shall be treated as one and the same. Notwithstanding any other provision of the Trust Agreement, in lieu of executing and delivering a new Revenue Obligation for a Revenue Obligation which has been lost, destroyed or stolen and which evidences principal that is then payable, the Trustee may make payment of such Revenue Obligation to the Owner thereof if so instructed by the District.

*Book-Entry System.* (a) The Revenue Obligations shall be initially executed and delivered as Book-Entry Certificates, and the Revenue Obligation for each stated Principal Payment Date shall be in the form of a separate single fully registered Revenue Obligation (which may be typewritten). Upon initial execution and delivery, the ownership of each Revenue Obligation shall be registered in the registration books maintained by the Trustee in the name of the Nominee, as nominee of the Depository.

Payment of principal or interest evidenced by any Book-Entry Certificate registered in the name of the Nominee shall be made on the applicable Interest Payment Date by wire transfer of New York clearing house or equivalent next day funds or by wire transfer of same day funds to the account of the Nominee. Such payments shall be made to the Nominee at the address which is, on the Record Date, shown for the Nominee in the registration books maintained by the Trustee.

(b) With respect to Book-Entry Certificates, the District, the Corporation and the Trustee shall have no responsibility or obligation to any Participant or to any Person on behalf of which such a Participant holds an interest in such Book-Entry Certificates. Without limiting the immediately preceding sentence, the District, the Corporation and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Participant with respect to any ownership interest in Book-Entry Certificates, (ii) the delivery to any Participant or any other Person, other than an Owner as shown in the registration books maintained by the Trustee, of any notice with respect to Book-Entry Certificates, including any notice of prepayment, (iii) the selection by the Depository and its Participants of the beneficial interests in Book-Entry Certificates to be prepaid in the event Revenue Obligations are prepaid in part, (iv) the payment to any Participant or any other Person, other than an Owner as shown in the registration books maintained by the Trustee, of any amount with respect to principal, premium, if any, or interest evidenced by Book-Entry Certificates, or (v) any consent given or other action taken by the Depository as Owner.

(c) The District, the Corporation and the Trustee may treat and consider the Person in whose name each Book-Entry Certificate is registered in the registration books maintained by the Trustee as the absolute Owner of such Book-Entry Certificate for the purpose of payment of principal, prepayment premium, if any, and interest evidenced by such Revenue Obligation, for the purpose of selecting any Revenue Obligation, or portions thereof, to be prepaid, for the purpose of giving notices of prepayment and other matters with respect to such Revenue Obligations, for the purpose of registering transfers with respect to such Revenue Obligation, for the purpose of obtaining any consent or other action to be taken



by Owners and for all other purposes whatsoever, and the District, the Corporation and the Trustee shall not be affected by any notice to the contrary.

(d) The Trustee shall pay all principal, premium, if any, and interest evidenced by the Revenue Obligations to the respective Owner, as shown in the registration books maintained by the Trustee, or his respective attorney duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the obligations with respect to payment of principal, premium, if any, and interest evidenced by the Revenue Obligations to the extent of the sum or sums so paid. No Person other than an Owner, as shown in the registration books maintained by the Trustee, shall receive a Revenue Obligation evidencing principal, premium, if any, and interest evidenced by the Revenue Obligations. Upon delivery by the Depository to the Owners, the Trustee and the District of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions in the Trust Agreement with respect to Record Dates, the word Nominee in the Trust Agreement shall refer to such nominee of the Depository.

(e) To qualify the Book-Entry Certificates for the Depository's book-entry system, the District shall execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations shall not in any way impose upon the Corporation, the District or the Trustee any obligation whatsoever with respect to Persons having interests in such Book-Entry Certificates other than the Owners, as shown on the registration books maintained by the Trustee. Such Letter of Representations may provide the time, form, content and manner of transmission, of notices to the Depository. In addition to the execution and delivery of a Letter of Representations by the District, the District, the Corporation and the Trustee shall take such other actions, not inconsistent with the Trust Agreement, as are reasonably necessary to qualify Book-Entry Certificates for the Depository's book-entry program.

(f) If the District determines that it is in the best interests of the Beneficial Owners that they be able to obtain certificated Revenue Obligations and that such Revenue Obligations should therefore be made available and notifies the Depository and the Trustee of such determination, the Depository will notify the Participants of the availability through the Depository of certificated Revenue Obligations. In such event, the Trustee shall transfer and exchange certificated Revenue Obligations as requested by the Depository and any other Owners in appropriate amounts. In the event (i) the Depository determines not to continue to act as securities depository for Book-Entry Certificates, or (ii) the Depository shall no longer so act and gives notice to the Trustee of such determination, then the District shall discontinue the Book-Entry system with the Depository. If the District determines to replace the Depository with another qualified securities depository, the District shall prepare or direct the preparation of a new single, separate, fully registered Revenue Obligation for each stated Principal Payment Date of such Book-Entry Certificates, registered in the name of such successor or substitute qualified securities depository or its nominee. If the District fails to identify another qualified securities depository to replace the Depository, then the Revenue Obligations shall no longer be restricted to being registered in the registration books maintained by the Trustee in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging such Revenue Obligations shall designate, in accordance with the Trust Agreement as described herein under the caption "THE TRUST AGREEMENT — *Terms and Conditions of Revenue Obligations — Transfer and Payment of Revenue Obligations; Exchange of Revenue Obligations*" and "— *Revenue Obligations Mutilated, Lost, Destroyed or Stolen.*" Whenever the Depository requests the District to do so, the District will cooperate with the Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Book-Entry Certificates to any Participant having Book-Entry Certificates credited to its account with the Depository, and (ii) to arrange for another securities depository to maintain custody of certificates evidencing the Book-Entry Certificates.

(g) Notwithstanding any other provision of the Trust Agreement to the contrary, if DTC is the sole Owner of the Revenue Obligations, so long as any Book-Entry Certificate is registered in the name of the Nominee, all payments of principal, premium, if any, and interest evidenced by such Revenue Obligation and all notices with respect to such Revenue Obligation shall be made and given, respectively, as provided in the Letter of Representations or as otherwise instructed by the Depository.

(h) In connection with any notice or other communication to be provided to Owners pursuant to the Trust Agreement by the District, the Corporation or the Trustee, with respect to any consent or other action to be taken by Owners, the Trustee shall establish a record date for such consent or other action and give the Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible. Notice to the Depository shall be given only when DTC is the sole Owner of the Revenue Obligations.

*Equal Security.* In consideration of the acceptance of the Revenue Obligations by the Owners, the Trust Agreement shall be deemed to be and shall constitute a contract between the Trustee and the Owners to secure the full and final payment of the interest and principal evidenced by the Revenue Obligations which may be executed and delivered under the Trust Agreement, subject to each of the agreements, conditions, covenants and terms contained in the Trust Agreement; and all agreements, conditions, covenants and terms contained in the Trust Agreement required to be observed or performed by or on behalf of the Trustee shall be for the equal and proportionate benefit, protection and security of all Owners without distinction, preference or priority as to security or otherwise of any Revenue Obligations over any other Revenue Obligations by reason of the number or date thereof or the time of execution or delivery thereof or for any cause whatsoever, except as expressly provided in the Trust Agreement or therein.

#### **Assignment and Pledge; Funds and Accounts**

*Assignment and Pledge.* The Corporation pursuant to the Trust Agreement transfers, conveys and assigns to the Trustee, for the benefit of the Owners, all of the Corporation's rights, title and interest in and to the Installment Purchase Agreement (excepting its rights to indemnification thereunder), including the right to receive Installment Payments, and the interest thereon, from the District and the right to exercise any remedies provided therein in the event of a default by the District thereunder. The Trustee pursuant to the Trust Agreement accepts said transfer, conveyance and assignment, solely in its capacity as Trustee, for the benefit of the Owners, subject to the provisions of the Trust Agreement. All Installment Payments, and the interest thereon, shall be paid directly by the District to the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee immediately upon the receipt thereof.

To secure the respective rights of the Owners to the payments required to be made thereto as provided in the Trust Agreement, the Corporation and the District pursuant to the Trust Agreement irrevocably pledge to the Trustee, for the benefit of the Owners, all of their right, title and interest, if any, in and to all amounts on deposit from time to time in the funds and accounts established under the Trust Agreement. This pledge shall constitute a first lien on the amounts on deposit in such funds and accounts.

*Installment Payment Fund.* (a) The Trustee shall establish and maintain the Installment Payment Fund until all required Installment Payments, and the interest thereon, are paid in full pursuant to the Installment Purchase Agreement and until the first date upon which the Revenue Obligations are no longer Outstanding. The Trustee shall deposit in the Installment Payment Fund all Installment Payments, and the interest thereon, paid by the District and received by the Trustee. The moneys in the Installment Payment Fund shall be held in trust by the Trustee for the benefit of the Owners and shall be used and disbursed only for the purposes and uses authorized in the Trust Agreement.

(b) The Trustee shall transfer the amounts on deposit in the Installment Payment Fund, at the times and in the manner provided below, to the following respective accounts within the Installment Payment Fund, each of which the Trustee pursuant to the Trust Agreement agrees to establish and maintain until all required Installment Payments, and the interest thereon, are paid in full pursuant to the Installment Purchase Agreement and until the first date upon which the Revenue Obligations are no longer Outstanding. The moneys in each of such accounts shall be held in trust by the Trustee for the benefit of the Owners and shall be used and disbursed only for the purposes and uses authorized in the Trust Agreement.

(i) *Interest Account.* The Trustee, on each Interest Payment Date, shall deposit in the Interest Account that amount of moneys representing the interest on the Installment Payments coming due on such Interest Payment Date. Moneys in the Interest Account shall be used by the Trustee for the purpose of paying the interest evidenced by the Revenue Obligations when due and payable.

(ii) *Principal Account.* The Trustee, on each Principal Payment Date, shall deposit in the Principal Account that amount of moneys representing the Installment Payments coming due on such Principal Payment Date. Moneys in the Principal Account shall be used by the Trustee for the purpose of paying the principal or Mandatory Sinking Account Payments evidenced by the Revenue Obligations when due and payable.

(iii) *Prepayment Account.* The Trustee, on the prepayment date specified in the Written Request of the District filed with the Trustee at the time that any prepaid Installment Payment is paid to the Trustee pursuant to the Installment Purchase Agreement, shall deposit in the Prepayment Account that amount of moneys representing such prepaid Installment Payment, the accrued interest thereon to the prepayment date and any premium payable with respect thereto. The Trustee shall deposit in the Prepayment Account any other amounts made available by the District that the District, pursuant to a Written Request of the District, instructs the Trustee to apply to the prepayment of Revenue Obligations pursuant to the "Optional Prepayment" provisions under the Trust Agreement. Moneys in the Prepayment Account shall be used by the Trustee for the purpose of paying the interest, premium, if any, and principal evidenced by the Revenue Obligations to be prepaid pursuant to the "Optional Prepayment" provisions under the Trust Agreement.

*Investment of Moneys.* Except as otherwise provided in the Trust Agreement, all moneys in any of the funds or accounts established pursuant to the Trust Agreement shall be invested by the Trustee solely in Permitted Investments, as directed by the District pursuant to a Written Request of the District at least two (2) Business Days prior to the making of such investment. Moneys in all funds and accounts held by the Trustee shall be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Trust Agreement. Absent timely written direction from the District, the Trustee shall invest any funds held by it in Permitted Investments described in clause (10) of the definition thereof. Permitted Investments that are registerable securities shall be registered in the name of the Trustee. All interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Trust Agreement shall be retained therein.

Permitted Investments acquired as an investment of moneys in any fund or account established under the Trust Agreement shall be credited to such fund or account. For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued by the Trustee at the market value thereof, such valuation to be performed not less frequently than semiannually on or before each January 15 and July 15.

The Trustee or an affiliate may act as principal or agent in the making or disposing of any investment. The Trustee shall sell or present for redemption any Permitted Investment whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Permitted Investment is credited, and the Trustee shall not be liable or responsible for any loss resulting from any investment made or sold pursuant to the Trust Agreement. For purposes of investment, the Trustee may commingle moneys in any of the funds and accounts established under the Trust Agreement.

The Trustee is pursuant to the Trust Agreement authorized, in making or disposing of any investment permitted by the Trust Agreement, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether or not such affiliate is acting as an agent of the Trustee or for any third Person or dealing as principal for its own account.

## **Covenants**

*Compliance with Trust Agreement.* The Trustee will not execute or deliver any Revenue Obligations in any manner other than in accordance with the provisions of the Trust Agreement, and the Corporation and the District will not suffer or permit any default by them to occur under the Trust Agreement, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms of the Trust Agreement required to be complied with, kept, observed and performed by them.

*Compliance with Installment Purchase Agreement.* The Corporation and the District will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Agreement required to be complied with, kept, observed and performed by them and, together with the Trustee, will enforce the Installment Purchase Agreement against the other party thereto in accordance with its terms.

*Compliance with Master Agreement.* The Corporation and the District will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Master Agreement required to be complied with, kept, observed and performed by them and, together with the Trustee, will enforce the Master Agreement against the other party thereto in accordance with its terms.

*Observance of Laws and Regulations.* The Corporation and the District will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

*Other Liens.* None of the Trustee, the Corporation or the District shall create or suffer to be created any pledge of or lien on the amounts on deposit in any of the funds or accounts created under the Trust Agreement, other than the pledge and lien of the Trust Agreement.

*Prosecution and Defense of Suits.* The District will defend against every action, suit or other proceeding at any time brought against the Trustee or any Owner upon any claim arising out of the receipt, deposit or disbursement of any of the Installment Payments, or the interest thereon, or involving the rights of the Trustee or any Owner under the Trust Agreement; provided, however, that the Trustee or any Owner at its or his election may appear in and defend any such action, suit or other proceeding.

*Accounting Records and Statements.* The Trustee will keep proper accounting records in which complete and correct entries shall be made of all transactions made by the Trustee relating to the receipt, deposit and disbursement of the Installment Payments, and the interest thereon, and such accounting records shall be available for inspection by the Corporation and the District at reasonable hours and under reasonable conditions. The Trustee shall not be obligated to provide an accounting for any fund or account that (a) has a balance of \$0.00 and (b) has not had any activity since the last reporting date. The Trustee will, upon written request, make copies of the foregoing available to any Owner (at the expense of such Owner).

*Tax Covenants. Special Definitions.* When used in the Trust Agreement, the following terms shall have the following meanings:

“Bond Counsel” means Fulbright & Jaworski L.L.P. or any other counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the District and reasonably satisfactory to and approved by the Trustee.

“Computation Date” has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

“Computation Period” means, initially, that period commencing on the date of the execution and delivery of the Revenue Obligations and concluding on the initial Computation Date and, thereafter, each period commencing on the day next following a Computation Date and concluding on the immediately succeeding Computation Date.

“Gross Proceeds” of any issue of governmental obligations means any proceeds as defined in section 1.148-1(b) of the Tax Regulations (referring to sales, investment and transferred proceeds) of that issue, and any replacement proceeds as defined in section 1.148-1(c) of the Tax Regulations, of that issue.

“Investment” has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

“Nonpurpose Investment” means any investment property, as defined in section 148(b) of the Code, in which Gross Proceeds of an issue are invested and that is not acquired to carry out the governmental purposes of that issue.

“Opinion of Bond Counsel” means a written opinion of Fulbright & Jaworski L.L.P. or any other counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the District and reasonably satisfactory to and approved by the Trustee.

“Prior Issues” shall refer, separately or collectively as the context shall suggest, to the Refunded Certificates (but in the case of any of the foregoing executed and delivered for multiple purposes, only to the portion thereof allocable pursuant to section 1.148-9(h)(4) of the Tax Regulations to other than refunding purposes).

“Proceeds,” with respect to an issue of governmental obligations, has the meaning set forth in has the meaning set forth in section 1.148-1(b) of the Tax Regulations (referring to sales, investment and transferred proceeds, but not replacement proceeds).

“Rebate Amount” has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

“Tax Regulations” means the United States Treasury Regulations promulgated pursuant to sections 103 and 141 through 150 of the Code.

“Yield” of (i) any Investment has the meaning set forth in section 1.148-5 of the Tax Regulations and (ii) in respect of the Revenue Obligations has the meaning set forth in section 1.148-4 of the Tax Regulations.

(a) The District will take all actions necessary to establish and maintain the exclusion pursuant to section 103(a) of the Code of interest on the Revenue Obligations from the gross income of the owners thereof for federal income tax purposes, and will not use, permit the use of, or omit to use Gross Proceeds of the Revenue Obligations or any other amounts (or any property the acquisition, construction or improvement of which is to be refinanced directly or indirectly with Gross Proceeds) in a manner that if made or omitted, respectively, would cause the interest on any Revenue Obligation to fail to be excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the until the Trustee receives a written Opinion of Bond Counsel to the effect that failure to comply with such covenant will not adversely affect the exclusion pursuant to section 103(a) of the Code of interest on any Revenue Obligation from the gross income of the owner thereof, the District shall comply with this covenant and each of the specific covenants in the Trust Agreement.

(b) Except as would not cause any Revenue Obligation to become a “private activity bond” within the meaning of section 141 of the Code and the Tax Regulations and rulings thereunder, the District shall at all times prior to the payment and cancellation of the last of the Revenue Obligations to be retired:

(i) exclusively own, operate and possess all property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with Gross Proceeds of the Revenue Obligations and not use or permit the use of such Gross Proceeds (including all contractual arrangements with terms different than those applicable to the general public) or any property acquired, constructed or improved with such Gross Proceeds or the Gross Proceeds of any Prior Issue in any activity carried on by any person or entity (including the United States or any agency, department and instrumentality thereof) other than a state or local government, unless such use is solely as a member of the general public; and

(ii) does not directly or indirectly impose or accept any charge or other payment by any person or entity who is treated as using Gross Proceeds of the Revenue Obligations or of any Prior Issue, or any property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with such Gross Proceeds, other than taxes of general application within the jurisdiction of the District or interest earned on investments acquired with such Gross Proceeds pending application for their intended purposes.

(c) Except as would not cause any Revenue Obligation to become a “private activity bond” within the meaning of section 141 of the Code and the Tax Regulations and rulings thereunder, the District shall not use of Gross Proceeds of the Revenue Obligations to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, such Gross Proceeds are considered to be “loaned” to a person or entity if: (i) property acquired, constructed or improved with such Gross Proceeds is sold or leased to such person or entity in a transaction that creates a debt for federal income tax purposes; (ii) capacity in or service from such property is committed to such person or entity under a take-or-pay, output or similar contract or arrangement; or (iii) indirect benefits of such Gross Proceeds, or burdens and benefits of ownership of any property acquired, constructed or improved with such Gross Proceeds, are otherwise transferred in a transaction that is the economic equivalent of a loan. For purposes of this covenant, the District will treat any transaction constituting a loan of Gross Proceeds of any of the Prior Issues as resulting in a loan of Gross Proceeds of the Revenue Obligations.

(d) Except as would not cause any Revenue Obligation to become an “arbitrage bond” within the meaning of section 148 of the Code and the Tax Regulations and rulings thereunder, the District will not, at any time prior to the final cancellation of the last Revenue Obligation to be retired, directly or indirectly invest Gross Proceeds of the Revenue Obligations in any Investment, if as a result of that investment the yield of any Investment acquired with Gross Proceeds of the Revenue Obligations, whether then held or previously disposed of, would materially exceed the yield of the Revenue Obligations within the meaning of said section 148.

(e) Except to the extent such action or failure to act would not pursuant to section 149(b) of the Code and the Tax Regulations and rulings thereunder, adversely affect the exclusion pursuant to section 103(a) of interest on the Revenue Obligations from the gross income of the owners thereof for federal income tax purposes, the District will not take or omit to take any action that would cause any Revenue Obligation to be “federally guaranteed” within the meaning of section 149(b) of the Code and the Tax Regulations and rulings thereunder.

(f) The District will timely file any information necessary to the exclusion pursuant to section 103(a) of the Code of interest on the Revenue Obligations required by section 149(e) of the Code with the Secretary of the Treasury on Form 8038-G or such other form and in such place as the Secretary of the Treasury may prescribe.

(g) Except to the extent permitted by section 148 of the Code and the Tax Regulations and rulings thereunder, the District will not at any time prior to the final cancellation of the last of the Revenue Obligations to be retired, enter into any transaction that reduces the amount required to be paid to the United States pursuant to section 148(f) of the Code because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm’s length and had the yield on the Revenue Obligations not been relevant to either party.

(h) The District represents that none of the Prior Issues or the Revenue Obligations are or will become “hedge bonds” within the meaning of section 149(g) of the Code. Without limitation of the foregoing, with respect to each of the Prior Issues, (i)(A) on the date of issuance of that issue the District reasonably expected (based upon its own knowledge and upon representations made by other governmental persons upon the issuance of those obligations) that within the three-year period commencing on such date no less than 85% of the spendable proceeds of that issue would be expended for the governmental purposes thereof and (B) the District believes and represents that at no time has more than 50% of the proceeds of that issue been invested in Nonpurpose Investments having a substantially guaranteed yield for a period of four years or more, and with respect to the application of Proceeds of the Revenue Obligations other than for refunding purposes, (ii)(A) the District will not deliver the Revenue Obligations unless on the date of the issuance of the Revenue Obligations it reasonably expects that within the three-year period commencing on such date of issuance at least 85% of such spendable proceeds of the Revenue Obligations will be expended for the governmental purpose of the Revenue Obligations and (B) at no time will more than 50% of such spendable proceeds of the Revenue Obligations be invested in Nonpurpose Investments having a substantially guaranteed yield for a period of four years or more.

(i) The District hereby directs and authorizes any Authorized Representative to make elections permitted or required pursuant to the provisions of the Code or the Tax Regulations, as such Authorized Representative (after consultation with Bond Counsel) deems necessary or appropriate in connection with the Revenue Obligations, in the Tax Certificate (as defined below) or similar or other appropriate certificate, form or document.

(j) The District agrees to execute and deliver in connection with the execution and delivery of the Revenue Obligations a Tax Certificate as to Arbitrage and the Provisions of Sections 141-150 of the Internal Revenue Code of 1986, or similar document containing additional representations and covenants pertaining to the exclusion of interest with respect to the Revenue Obligations from the gross income of the owners thereof for federal income tax purposes (the “Tax Certificate”).

*Continuing Disclosure.* The District will comply with and carry out all of the provisions of the Continuing Disclosure Agreement applicable to it. Notwithstanding any other provision of the Trust Agreement, failure of the District to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; provided, however, the Trustee at the request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Revenue Obligations and upon being indemnified to its reasonable satisfaction, shall, or any Owner or Beneficial Owner of Revenue Obligations may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

*Further Assurances.* The District will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to carry out the purposes and intentions of the Trust Agreement and for preserving and protecting the rights and interests of the Owners.

#### **Default and Limitations of Liability**

*Action upon Event of Default.* An Event of Default under the Installment Purchase Agreement shall constitute an Event of Default under the Trust Agreement and an Event of Default under the Master Agreement shall constitute an Event of Default under the Trust Agreement. The Trustee may give notice, as assignee of the Corporation, of an Event of Default under the Installment Purchase Agreement to the District, and shall do so if directed to do so by the Owners of not less than 5% of the aggregate principal evidenced by Revenue Obligations then Outstanding. In each and every case during the continuance of an Event of Default, the Trustee may and, at the direction of the Owners of not less than a majority of the aggregate principal evidenced by Revenue Obligations then Outstanding, shall, upon notice in writing to the District and the Corporation (a) exercise any of the remedies granted to the Corporation under the Installment Purchase Agreement, (b) exercise any of the remedies granted to the Trustee under the Master Agreement, and (c) take whatever action at law or in equity may appear necessary or desirable to enforce its rights pursuant to the Trust Agreement, the Installment Purchase Agreement or the Master Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Trust Agreement, the Revenue Obligations, the Installment Purchase Agreement or the Master Agreement, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in the Trust Agreement as described herein in under the caption “THE TRUST AGREEMENT – Amendment of or Supplement to Trust Agreement – *Disqualified Revenue Obligations.*”

*Other Remedies of the Trustee.* Subject to the provisions of the Trust Agreement as described herein under the caption “THE TRUST AGREEMENT – Default and Limitations of Liability – *Action upon Event of Default,*” the Trustee shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Corporation or the District or any member, director, officer or employee thereof, and to compel the Corporation or the District or any such member, director, officer or employee to perform or



carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her 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 Event of Default under the Trust Agreement to require the Corporation and the District to account as the trustee of an express trust.

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

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

*Remedies Not Exclusive.* Subject to the provisions of the Trust Agreement as described herein under the caption “THE TRUST AGREEMENT – Default and Limitations of Liability – *Action upon Event of Default,*” no remedy conferred upon or reserved to the Trustee under the Trust Agreement is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law. The assertion or employment of any right or remedy under the Trust Agreement, or otherwise, shall not prevent the concurrent or subsequent assertion or employment of any other appropriate right or remedy.

*Application of Amounts After Default.* All damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee shall be deposited into the Installment Payment Fund and as soon as practicable and thereafter applied:

(a) to the payment of all amounts due the Trustee under the Trust Agreement;

(b) unless the unpaid Installment Payments, and the interest thereon, shall have become, and shall remain, immediately due and payable pursuant to the Master Agreement:

(i) to the payment of all amounts then due for interest evidenced by the Revenue Obligations, in respect of which, or for the benefit of which, money has been collected (other than Revenue Obligations which have become payable prior to such Event of Default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts of interest evidenced by such Revenue Obligations due and payable; and

(ii) to the payment of all amounts then due for principal evidenced by the Revenue Obligations, in respect of which, or for the benefit of which, money has been collected (other than

Revenue Obligations which have become payable prior to such Event of Default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts of principal evidenced by such Revenue Obligations due and payable.

(c) if the unpaid Installment Payments, and the interest thereon, shall have become, and shall remain, immediately due and payable pursuant to the Master Agreement, to the payment of all amounts then due for principal and interest evidenced by the Revenue Obligations and, if the amount available therefor shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Revenue Obligation over any other Revenue Obligation, to the persons entitled thereto without any discrimination or preference.

*Trustee May Enforce Claims Without Possession of Revenue Obligations.* All rights of action and claims under the Trust Agreement or the Revenue Obligations may be prosecuted and enforced by the Trustee without the possession of any of the Revenue Obligations or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners of the Revenue Obligations in respect of which such judgment has been recovered.

*Limitation on Suits.* No Owner shall have any right to institute any proceeding, judicial or otherwise, with respect to the Trust Agreement, or for the appointment of a receiver or trustee, or for any other remedy under the Trust Agreement, unless (a) such Owner shall have previously given written notice to the Trustee of a continuing Event of Default under the Trust Agreement, (b) the Owners of not less than a majority of the aggregate principal evidenced by Revenue Obligations then Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Trust Agreement, (c) such Owner or Owners shall have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request, (d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such proceedings, and (e) no direction inconsistent with such written request shall have been given to the Trustee during such 60-day period by the Owners of a majority of the aggregate principal evidenced by Revenue Obligations then Outstanding; it being understood and intended that no one or more Owners of Revenue Obligations shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Trust Agreement to affect, disturb or prejudice the rights of any other Owner of Revenue Obligations, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement and for the equal and ratable benefit of all the Owners of Revenue Obligations.

*No Liability by the Corporation to the Owner.* Except as expressly provided in the Trust Agreement, the Corporation shall not have any obligation or liability to the Owners with respect to the payment when due of the Installment Payments, and the interest thereon, by the District, or with respect to the performance by the District of the other agreements and covenants required to be performed by it contained in the Installment Purchase Agreement, the Master Agreement or in the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

*No Liability by the District to the Owners.* Except for the payment when due of the Installment Payments, and the interest thereon, and the performance of the other agreements and covenants required to be performed by it contained in the Installment Purchase Agreement, the Master Agreement or in the

Trust Agreement, the District shall not have any obligation or liability to the Owners with respect to the Trust Agreement or the preparation, execution, delivery or transfer of the Revenue Obligations or the disbursement of the Installment Payments, and the interest thereon, by the Trustee to the Owners, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

*No Liability of the Trustee to the Owners.* Except as expressly provided in the Trust Agreement, the Trustee shall not have any obligation or liability to the Owners with respect to the payment when due of the Installment Payments, and the interest thereon, by the District, or with respect to the performance by the Corporation or the District of the other agreements and covenants required to be performed by them, respectively contained in the Installment Purchase Agreement or in the Trust Agreement.

## **The Trustee**

*Employment of the Trustee; Duties.* The Corporation and the District pursuant to the Trust Agreement appoint and employ the Trustee to receive, deposit and disburse the Installment Payments, and the interest thereon, to prepare, execute, deliver and transfer the Revenue Obligations and to perform the other functions contained in the Trust Agreement, all in the manner provided in the Trust Agreement and subject to the conditions and terms of the Trust Agreement. By executing and delivering the Trust Agreement, the Trustee accepts the appointment and employment hereinabove referred to and accepts the rights and obligations of the Trustee provided in the Trust Agreement, subject to the conditions and terms of the Trust Agreement. Other than when an Event of Default under the Trust Agreement has occurred and is continuing, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Trust Agreement, and no implied covenants or obligations shall be read into the Trust Agreement against the Trustee. In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

*Removal and Resignation of the Trustee.* The Corporation and the District may, by an instrument in writing, remove the Trustee initially a party to the Trust Agreement and any successor thereto unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee initially a party to the Trust Agreement and any successor thereto if at any time (a) requested to do so by an instrument or concurrent instruments in writing signed by the Owners of a majority of the aggregate principal evidenced by the Revenue Obligations at the time Outstanding (or their attorneys duly authorized in writing), or (b) the Trustee shall cease to be eligible in accordance with the following sentence, and shall appoint a successor Trustee. The Trustee shall be a bank having trust powers or a trust company in good standing in or incorporated under the laws of the United States or any state thereof, having (or if such bank or trust company is a member of a bank holding company system, its parent bank holding company shall have) a combined capital and surplus of at least \$75,000,000, and be subject to supervision or examination by federal or state banking authorities. 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 shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice of such resignation to the Corporation and the District and by giving notice, by first class mail, postage prepaid, of such resignation to the Owners at their addresses appearing on the registration books maintained by the Trustee. Upon receiving such notice of resignation, the Corporation and the District shall promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event the District and the Corporation

do not appoint a successor Trustee within 30 days following receipt of such notice of resignation, the resigning Trustee may, at the expense of the District, petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of a Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee. Any successor Trustee appointed under the Trust Agreement shall signify its acceptance of such appointment by executing and delivering to the District and the Corporation and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Trust Agreement; but, nevertheless, at the written request of the District or of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Trust Agreement and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Trust Agreement.

Any corporation, association or agency into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, provided that such entity meets the combined capital and surplus requirements of the Trust Agreement, *ipso facto*, shall be and become successor trustee under the Trust Agreement and vested with all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties to the Trust Agreement, anything in the Trust Agreement to the contrary notwithstanding.

*Compensation and Indemnification of the Trustee.* The District shall from time to time, subject to any written agreement then in effect with the Trustee, pay the Trustee reasonable compensation for all its services rendered under the Trust Agreement and reimburse the Trustee for all its reasonable advances and expenditures (which shall not include “overhead expenses” except as such expenses are included as a component of the Trustee’s stated annual fees or disclosed transaction fees) under the Trust Agreement, including but not limited to advances to and reasonable fees and reasonable expenses of accountants, agents, appraisers, consultants or other experts, and counsel not directly employed by the Trustee but an attorney or firm of attorneys retained by the Trustee, employed by it in the exercise and performance of its rights and obligations under the Trust Agreement; provided, however, that the Trustee shall not have any lien for such compensation or reimbursement against any moneys held by it in any of the funds or accounts established under the Trust Agreement. The Trustee may take whatever legal actions are lawfully available to it directly against the Corporation or the District.

Except as otherwise expressly provided in the Trust Agreement, no provision of the Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Trust Agreement or in the exercise of any of its rights or powers under the Trust Agreement.

The District, to the extent permitted by law, agrees to indemnify and save the Trustee, its directors, officers, employees and agents harmless against any liabilities which it may incur in the exercise and performance of its powers and duties under the Trust Agreement, including but not limited to costs and expenses incurred in defending against any claim or liability, which are not due to its negligence or willful misconduct.

*Protection of the Trustee.* The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, notice, request, requisition, resolution, statement, waiver or other paper or document which it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of the Trust Agreement, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Trust Agreement at the request or direction of any of the Owners of the Revenue Obligations pursuant to the Trust Agreement, unless such Owners shall have offered to the Trustee security or indemnity, reasonably satisfactory to the Trustee, against the reasonable costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. The Trustee may consult with counsel, who may be counsel to the Corporation or the District, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect to any action taken or suffered by it under the Trust Agreement in good faith in accordance therewith.

The Trustee shall not be responsible for the sufficiency of the Revenue Obligations or the Installment Purchase Agreement, or of the assignment made to it under the Trust Agreement, or for statements made in the preliminary or final official statement relating to the Revenue Obligations.

The Trustee shall not be required to take notice or be deemed to have notice of any default or Event of Default under the Trust Agreement, except failure of any of the payments to be made to the Trustee required to be made under the Trust Agreement or under the Installment Purchase Agreement, unless the Trustee shall be specifically notified in writing of such default or Event of Default by the District, the Corporation or the Owners of not less than 5% of the aggregate principal evidenced by the Revenue Obligations then Outstanding.

Whenever in the administration of its rights and obligations under the Trust Agreement the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Trust Agreement, such matter (unless other evidence in respect thereof is specifically prescribed in the Trust Agreement) may be deemed to be conclusively proved and established by a Written Certificate of the District or a Written Certificate of the Corporation, and such certificate shall be full warrant 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, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it deems reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Revenue Obligations 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 Corporation or the District, and may act as agent, depository or trustee for any committee or body of Owners or of owners of obligations of the Corporation or the District as freely as if it were not the Trustee under the Trust Agreement.

The Trustee may, to the extent reasonably necessary, execute any of the trusts or powers of the Trust Agreement and perform any rights and obligations required of it under the Trust Agreement by or through agents, attorneys or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its rights and obligations under the Trust Agreement, and the Trustee shall not be answerable for the negligence or misconduct of any such agent, attorney or receiver selected by it with reasonable care; provided, however, that in the event of any negligence or misconduct of any such attorney, agent or receiver, the Trustee shall diligently pursue all remedies of the Trustee against such agent, attorney or

receiver. The Trustee shall not be liable for any error of judgment made by it in good faith unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall not be answerable for the exercise of any trusts or powers under the Trust Agreement or for anything whatsoever in connection with the funds established under the Trust Agreement, except only for its own willful misconduct, negligence or breach of an obligation under the Trust Agreement.

The Trustee may, on behalf of the Owners, intervene in any judicial proceeding to which the Corporation or the District is a party and which, in the opinion of the Trustee and its counsel, affects the Revenue Obligations or the security therefor, and shall do so if requested in writing by the Owners of at least 5% of the aggregate principal evidenced by Revenue Obligations then Outstanding, provided the Trustee shall have no duty to take such action unless it has been indemnified to its reasonable satisfaction against all risk or liability arising from such action.

### **Amendment of or Supplement to Trust Agreement**

*Amendment or Supplement.* (a) The Trust Agreement and the rights and obligations of the Corporation, the District, the Owners and the Trustee under the Trust Agreement may be amended or supplemented at any time by an amendment of the Trust Agreement or supplement to the Trust Agreement which shall become binding when the prior written consents of the Owners of a majority of the aggregate principal evidenced by the Revenue Obligations then Outstanding, exclusive of Revenue Obligations disqualified as provided in the Trust Agreement as described herein under the caption “THE TRUST AGREEMENT — Amendment of or Supplement to Trust Agreement — *Disqualified Revenue Obligations,*” are filed with the Trustee. No such amendment or supplement shall (i) extend the stated Principal Payment Date of any Revenue Obligation or reduce the rate of interest evidenced thereby or extend the time of payment of such interest or reduce the amount of principal evidenced thereby or change the prepayment terms and provisions or the provisions regarding delivery of notice of prepayment without the prior written consent of the Owner of each Revenue Obligation so affected, (ii) reduce the percentage of Owners whose consent is required for the execution of any amendment of or supplement to the Trust Agreement without the prior written consent of the Owners of all Revenue Obligations then Outstanding, (iii) modify any of the rights or obligations of the Trustee without the prior written consent of the Trustee, or (iv) amend the amendment provisions of the Trust Agreement without the prior written consent of the Owners of all Revenue Obligations then Outstanding.

(b) The Trust Agreement and the rights and obligations of the Corporation, the District, the Owners and the Trustee under the Trust Agreement may also be amended or supplemented at any time by an amendment of or supplement to the Trust Agreement which shall become binding upon execution, without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the agreements, conditions, covenants and terms required by the Corporation or the District to be observed or performed in the Trust Agreement other agreements, conditions, covenants and terms thereafter to be observed or performed by the Corporation or the District, or to surrender any right or power reserved in the Trust Agreement to or conferred in the Trust Agreement on the Corporation or the District;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement or in regard to questions arising under the Trust Agreement which the Corporation or the District may deem desirable or necessary and not inconsistent with the Trust Agreement; or

(iii) for any other reason, provided such amendment or supplement does not adversely affect the rights or interests of the Owners.

*Disqualified Revenue Obligations.* Revenue Obligations owned or held by or for the account of the District (but excluding Revenue Obligations held in any pension or retirement fund of the District) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Revenue Obligations provided in the Trust Agreement, and shall not be entitled to consent to or take any other action provided in the Trust Agreement, and the Trustee may adopt appropriate regulations to require each Owner, before his consent provided for in the Trust Agreement shall be deemed effective, to reveal if the Revenue Obligations as to which such consent is given are disqualified as provided in the Trust Agreement.

*Endorsement or Replacement of Revenue Obligations After Amendment or Supplement.* After the effective date of any action taken as provided in the Trust Agreement, the Trustee may determine that the Revenue Obligations may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case upon demand of the Owner of any Outstanding Revenue Obligation and presentation of such Revenue Obligation for such purpose at the Principal Office of the Trustee a suitable notation as to such action shall be made on such Revenue Obligation. If the Trustee shall receive an Opinion of Counsel advising that new Revenue Obligations modified to conform to such action are necessary, modified Revenue Obligations shall be prepared, and in that case upon demand of the Owner of any Outstanding Revenue Obligations such new Revenue Obligations shall be exchanged at the Principal Office of the Trustee without cost to each Owner for Revenue Obligations then Outstanding upon surrender of such Outstanding Revenue Obligations.

*Amendment by Mutual Consent.* The provisions of the Trust Agreement shall not prevent any Owner from accepting any amendment as to the particular Revenue Obligations owned by such Owner, provided that due notation thereof is made on such Revenue Obligations.

## **Defeasance**

*Discharge of Revenue Obligations and Trust Agreement.* (a) If the Trustee shall pay or cause to be paid or there shall otherwise be paid (i) to the Owners of all Outstanding Revenue Obligations the interest and principal evidenced thereby at the times and in the manner stipulated in the Trust Agreement and therein, and (ii) all other amounts due under the Trust Agreement and under the Installment Purchase Agreement, then such Owners shall cease to be entitled to the pledge of and lien on the amounts on deposit in the funds and accounts established under the Trust Agreement, as provided in the Trust Agreement, and all agreements and covenants of the Corporation, the District, and the Trustee to such Owners under the Trust Agreement shall thereupon cease, terminate and become void and shall be discharged and satisfied.

(b) Any Outstanding Revenue Obligation shall be deemed to have been paid within the meaning and with the effect expressed in the Trust Agreement when the whole amount of the principal, premium, if any, and interest evidenced by such Revenue Obligation shall have been paid or when (i) in case said Revenue Obligation or portion thereof has been selected for prepayment in accordance with the Trust Agreement prior to its stated Principal Payment Date, the District shall have given to the Trustee irrevocable instructions to give, in accordance with the provisions of the Trust Agreement, notice of prepayment of such Revenue Obligation, or portion thereof, (ii) there shall be on deposit with the Trustee, moneys, or Government Obligations, or any combination thereof, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which shall be sufficient to pay when due the principal, premium, if any, and interest evidenced by such Revenue Obligation and due and to become due on or prior to the prepayment date or its stated Principal Payment Date, as the case

may be, and (iii) in the event the stated Principal Payment Date of such Revenue Obligation will not occur, and said Revenue Obligation is not to be prepaid, within the next succeeding 60 days, the District shall have given the Trustee irrevocable instructions to give notice, as soon as practicable in the same manner as a notice of prepayment given pursuant to the Trust Agreement, to the Owner of such Revenue Obligation, or portion thereof, stating that the deposit of moneys or Government Obligations required by clause (ii) of this subsection has been made with the Trustee and that said Revenue Obligation, or portion thereof, is deemed to have been paid in accordance with this Section and stating such Principal Payment Date or prepayment date upon which moneys are to be available for the payment of the principal, premium, if any, and interest evidenced by said Revenue Obligation, or portion thereof.

Neither the moneys nor the Government Obligations deposited with the Trustee pursuant to the Trust Agreement nor principal or interest payments on any such Government Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for and pledged to, the payment of the principal, premium, if any, and interest evidenced by said Revenue Obligation, or portions thereof. If payment of less than all of the Revenue Obligations is to be provided for in the manner and with the effect expressed in the Trust Agreement, the Trustee or the District, as applicable, shall select such Revenue Obligations, or portions thereof, in the manner specified in the Trust Agreement for selection for prepayment of less than all of the Revenue Obligations, in the principal amounts designated to the Trustee by the District.

(c) After the payment of all the interest, prepayment premium, if any, and principal evidenced by all Outstanding Revenue Obligations and all other amounts due under the Trust Agreement and under the Installment Purchase Agreement as provided in the Trust Agreement, the Trustee shall execute and deliver to the Corporation and the District all such instruments as may be necessary or desirable to evidence the discharge and satisfaction of the Trust Agreement, the Trustee shall pay over or deliver to the District all moneys or securities held by it pursuant to the Trust Agreement which are not required for the payment of the interest, prepayment premium, if any, and principal evidenced by such Revenue Obligations and all other amounts due under the Trust Agreement and under the Installment Purchase Agreement.

(d) Prior to any defeasance becoming effective under the Trust Agreement, the District shall cause to be delivered (i) an executed copy of a report, addressed to the Trustee and the District, in form and in substance acceptable to the Trustee and the District, of a nationally recognized certified public accountant, or firm of such accountants, verifying that the Government Obligations and cash, if any, satisfy the requirements of clause (ii) of subsection (b) of this section (a "Verification"), (ii) a copy of the escrow deposit agreement entered into in connection with such defeasance, which escrow deposit agreement shall provide that no substitution of Government Obligations shall be permitted except with other Government Obligations and upon delivery of a new Verification and no reinvestment of Government Obligations shall be permitted except as contemplated by the original Verification or upon delivery of a new Verification, and (iii) a copy of an Opinion of Counsel, dated the date of such defeasance and addressed to the Trustee and the District, in form and in substance acceptable to the Trustee and the District, to the effect that such Revenue Obligations have been paid within the meaning and with the effect expressed in the Trust Agreement, and all agreements and covenants of the Corporation, the District and the Trustee to the Owners of such Revenue Obligations under the Trust Agreement have ceased, terminated and become void and have been discharged and satisfied.

*Unclaimed Moneys.* Any moneys held by the Trustee in trust for the payment and discharge of the interest or principal evidenced by any of the Revenue Obligations which remain unclaimed for two years after the date when such interest or principal evidenced by such Revenue Obligations have become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when the interest and principal evidenced by



such Revenue Obligations have become payable, shall be repaid by the Trustee to the District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of the interest and principal evidenced by such Revenue Obligations.

## **Miscellaneous**

*Benefits of Trust Agreement.* Nothing contained in the Trust Agreement, expressed or implied, is intended to give to any Person other than the Corporation, the District, the Trustee and the Owners any claim, remedy or right under or pursuant to the Trust Agreement, and any agreement, condition, covenant or term required in the Trust Agreement to be observed or performed by or on behalf of the Corporation or the District shall be for the sole and exclusive benefit of the Trustee and the Owners.

*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 his attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the Person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

The ownership of any Revenue Obligations and the amount, payment date, number and date of owning the same may be proved by the registration books maintained by the Trustee pursuant to the provisions of the Trust Agreement.

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

*Funds and Accounts.* Any fund or account required to be established and maintained in the Trust Agreement by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund, but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Revenue Obligations and the rights of the Owners. The Trustee may establish such funds and accounts as it deems necessary to perform its obligations under the Trust Agreement.

Trustee may commingle any of the moneys held by it under the Trust Agreement for investment purposes only; provided, however, that the Trustee shall account separately for the moneys in each fund or account established pursuant to the Trust Agreement.

*California Law.* The Trust Agreement shall be construed and governed in accordance with the laws of the State.

## THE INSTALLMENT PURCHASE AGREEMENT

### Purchase and Sale of Project; Payments

*Purchase and Sale of Project.* The District purchases from the Corporation, and the Corporation sells to the District, the Project in accordance with the provisions of the Installment Purchase Agreement. All right, title and interest in and to the Project shall immediately vest in the District on the Closing Date without further action on the part of the District or the Corporation.

*Installment Payments.* (a) The District shall, subject to any rights of prepayment provided in provided in the Installment Purchase Agreement as described herein under the caption “THE INSTALLMENT PURCHASE AGREEMENT — Prepayment of Installment Payments; Discharge,” pay to the Corporation, solely from Net Revenues and from no other sources, the purchase price of the Project in Installment Payments, with interest thereon, as provided in the Installment Purchase Agreement. The Installment Payments shall be in the aggregate principal amount of \$147,595,000, and shall be payable on the Business Day immediately preceding each of the Installment Payment Dates in the principal amounts and shall accrue interest at the rates per annum set forth in the Installment Purchase Agreement.

(b) The Installment Payments shall accrue interest from the Closing Date, at the rates set forth in the Installment Purchase Agreement, payable on the Interest Payment Dates in each year. Such interest shall accrue on the basis of a 360-day year consisting of twelve 30-day months. Each Installment Payment, and each payment of interest thereon, shall be deposited with the Trustee, as assignee of the Corporation, no later than the Business Day next preceding the Installment Payment Date or Interest Payment Date on which such Installment Payment or payment of interest is due, in lawful money of the United States of America, in immediately available funds. If and to the extent that, on any such date, there are amounts on deposit in the Installment Payment Fund established under the Trust Agreement, or in any of the accounts therein, which amounts are not being held for the payment of specific Revenue Obligations, such amounts shall be credited against the Installment Payment, or payment of interest thereon, as applicable, due on such date.

*Obligation Absolute.* The obligation of the District to make the Installment Payments, and payments of interest thereon, and other payments required to be made by it under the Installment Purchase Agreement, solely from Net Revenues, is absolute and unconditional, and until such time as all of the Installment Payments, payments of interest thereon, and such other payments shall have been paid in full (or provision for the payment thereof shall have been made pursuant to the Installment Purchase Agreement), the District shall not discontinue or suspend any Installment Payments, or payments of interest thereon, or other payments required to be made by it under the Installment Purchase Agreement when due, whether or not the Project 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 Installment Payments, payments of interest thereon, and other 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.

*Nature of Agreement.* The Installment Purchase Agreement constitutes a Senior Obligation and, as such, shall be subject to the provisions of the Master Agreement and shall be afforded all of the advantages, benefits, interests and security afforded Senior Obligations pursuant to the Master Agreement.

## **Prepayment of Installment Payments; Discharge**

*Prepayment of Installment Payments.* (a) The Installment Payments shall be subject to prepayment prior to their respective Installment Payment Dates as provided in the Trust Agreement.

(b) The District may prepay, from any source of available funds, all or any portion of the Installment Payments by depositing with the Trustee moneys or securities as provided, and subject to the terms and conditions of the Trust Agreement as described herein under the caption “THE TRUST AGREEMENT – Defeasance” sufficient to pay such Installment Payments, and the interest thereon, when due or to pay such Installment Payments, and the interest thereon, through a specified date on which the District has a right to prepay such Installment Payments pursuant to subsection (a) of this section, and to prepay such Installment Payments on such prepayment date, at a prepayment price determined in accordance with subsection (a) of this section.

(c) If less than all of the Installment Payments are prepaid then, as of the date of such prepayment pursuant to subsection (a) of this section, or the date of a deposit pursuant to subsection (b) of this section, the schedule of Installment Payments shall be recalculated in order to take such prepayment into account.

*Notice.* The District shall give written notice to the Trustee specifying the date on which the prepayment will be made prior to making any prepayment pursuant to the Installment Purchase Agreement, which date shall be not less than 25 nor more than 60 days from the date such notice is given to the Trustee, unless such time period shall be waived by the Trustee.

*Discharge of Obligations.* If all Installment Payments, and the interest thereon, shall be paid as and when due in accordance with the terms of the Installment Purchase Agreement, and if all Revenue Obligations shall be fully paid, or provision therefor made in accordance with the Trust Agreement, and the Trust Agreement shall be discharged by its terms, then all agreements, covenants and other obligations of the District under the Installment Purchase Agreement shall thereupon cease, terminate and become void and be discharged and satisfied.

## **Covenants**

*Compliance with Master Agreement.* The District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Master Agreement required to be observed and performed by it and will not cause, suffer or permit any default to occur thereunder.

*Compliance with Installment Purchase Agreement.* The District will punctually pay the Installment Payments, and interest thereon, and other payments required to be made by it under the Installment Purchase Agreement 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 in the Installment Purchase Agreement required to be observed and performed by it, will not cause, suffer or permit any default to occur under the Installment Purchase Agreement 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 Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of the Corporation to observe or perform any agreement, condition, covenant or term contained in the Installment Purchase Agreement required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with the Installment Purchase Agreement or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Corporation or any force

majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

*Protection of Security and Rights.* The District will preserve and protect the security under the Installment Purchase Agreement and the rights of the Trustee, as assignee of the Corporation, to the Installment Payments, and interest thereon, and other payments required to be made by the District under the Installment Purchase Agreement and will warrant and defend such rights against all claims and demands of all Persons.

*Indemnification of Corporation.* To the extent permitted by law, the District agrees to indemnify and hold the Corporation and its members and officers harmless against any and all liabilities which might arise out of or are related to the Project, the Installment Purchase Agreement or the Revenue Obligations, and the District further agrees to defend the Corporation and its members and officers in any action arising out of or related to the Project, the Installment Purchase Agreement or the Revenue Obligations.

*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, or unto the Trustee, as assignee of the Corporation, the rights and benefits provided under the Installment Purchase Agreement to the Corporation, or to the Trustee, as assignee of the Corporation.

#### **Events of Default and Remedies of the Corporation**

*Events of Default.* The following shall be Events of Default under the Installment Purchase Agreement, and Installment Purchase Agreement Event of Default shall mean any one or more of the following events:

(a) if default shall be made by the District in the due and punctual payment of or on account of any Senior Obligation as the same shall become due and payable;

(b) if default shall be made by the District in the performance of any of the agreements or covenants required under the Installment Purchase Agreement, in the Trust Agreement or in the Master Agreement to be performed by it (other than as specified in (a) above), and such default shall have continued for a period of 30 days after the District shall have been given notice in writing of such default by the Corporation or the Trustee; provided, however, that the party or parties giving such notice may agree in writing to a reasonable extension of such period prior to the expiration of such 30-day period and, provided, further, that if the District shall proceed to take curative action which, if begun and prosecuted with due diligence, cannot be completed within such a period of 30 days, then such period shall be increased without such written extension to such extent as shall be necessary to enable the District to diligently complete such curative action and such default shall not become an Installment Purchase Agreement Event of Default for so long as shall be necessary to diligently complete such curative action; or

(c) if the District shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other

law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property.

*Remedies on Default.* Upon the occurrence of an Installment Purchase Agreement Event of Default, the Trustee, as assignee of the Corporation, shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District and to compel the District to perform and carry out its duties under applicable law and the agreements and covenants required to be performed under the Installment Purchase Agreement;

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

(c) by suit in equity to require the District to account as the trustee of an express trust; and to have a receiver or receivers appointed for the Wastewater System and of the issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer.

*Non-Waiver.* No provision of the Installment Purchase Agreement shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the Installment Payments, and the interest thereon, to the Trustee, as assignee of the Corporation, at the respective due dates from the Net Revenues and the other funds committed under the Installment Purchase Agreement for such payment, or shall affect or impair the right of the Trustee, as assignee of the Corporation, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Installment Purchase Agreement.

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

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

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

## **Amendments**

*Amendments.* (a) The Installment Purchase Agreement and the rights and obligations of the District, the Corporation and the Trustee, as assignee of the Corporation, may be amended or modified from time to time and at any time by a written amendment to the Installment Purchase Agreement executed by the District, the Corporation and the Trustee, as assignee of the Corporation, with the written consent of the Owners of a majority of the aggregate principal evidenced by Revenue Obligations then Outstanding. No such amendment shall (i) extend the payment date of any Installment Payment or reduce the amount of any Installment Payment, or the interest rate applicable thereto, without the prior written consent of the Owner of each affected Revenue Obligation, or (ii) reduce the percentage of Owners of the Revenue Obligations whose consent is required to effect any such amendment or modification, without the prior written consent of the Owners of all Revenue Obligations then Outstanding.

(b) The Installment Purchase Agreement and the rights and obligations of the District, the Corporation and the Trustee, as assignee of the Corporation, may be amended or modified from time to time and at any time by a written amendment to the Installment Purchase Agreement executed by the District, the Corporation and the Trustee, as assignee of the Corporation, without the written consents of any Owners of the Revenue Obligations, but only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the agreements, conditions, covenants and terms required by the District, the Corporation or the Trustee, as assignee of the Corporation, to be observed or performed under the Installment Purchase Agreement other agreements, conditions, covenants and terms thereafter to be observed or performed by the District, the Corporation or the Trustee, as assignee of the Corporation, or to surrender any right or power reserved under the Installment Purchase Agreement to or conferred under the Installment Purchase Agreement on the District, the Corporation or the Trustee, as assignee of the Corporation;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Installment Purchase Agreement or in regard to questions arising under the Installment Purchase Agreement which the District, the Corporation or the Trustee, as assignee of the Corporation, may deem desirable or necessary and not inconsistent with the Installment Purchase Agreement; and

(iii) to make such other changes under the Installment Purchase Agreement or modifications to the Installment Purchase Agreement as the District, the Corporation or the Trustee, as assignee of the Corporation, may deem desirable or necessary, and which shall not materially adversely affect the interests of the Owners of the Revenue Obligations.

## **Miscellaneous**

*Limitation of Rights.* Nothing in the Installment Purchase Agreement expressed or implied is intended or shall be construed to give to any Person other than the District, the Corporation and the Trustee, as assignee of the Corporation, any legal or equitable right, remedy or claim under or in respect of the Installment Purchase Agreement or any covenant, condition or provision contained therein or in the Installment Purchase Agreement, and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the District, the Corporation and the Trustee, as assignee of the Corporation.

*Assignment.* The District and the Corporation acknowledge the transfer, conveyance and assignment by the Corporation to the Trustee of all of the Corporation's rights, title and interest under the Installment Purchase Agreement (excepting its rights to indemnification under the Installment Purchase Agreement), including the right to receive the Installment Payments, and the interest thereon, from the District, pursuant to the Trust Agreement.

*Law Governing.* The Installment Purchase Agreement shall be construed and governed in accordance with the laws of the State.

## **THE MASTER AGREEMENT**

### **Pledges; Funds and Accounts**

*Pledge of Net Revenues.* Subject only to the provisions of the Master Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Master Agreement, all Net Revenues are by the Master Agreement pledged to the payment of the Senior Obligations and Reimbursement Obligations with respect to Senior Obligations, as provided in the Master Agreement, and the Net Revenues shall not be used for any other purpose while any of the Senior Obligations or Reimbursement Obligations with respect to Senior Obligations remain unpaid. Such pledge shall constitute a first lien on the Net Revenues for the payment of the Senior Obligations and Reimbursement Obligations with respect to Senior Obligations.

Subject only to the provisions of the Master Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Master Agreement, all Net Revenues are by the Master Agreement pledged to the payment of the Subordinate Obligations and Reimbursement Obligations with respect to Subordinate Obligations, as provided in the Master Agreement, and the Net Revenues shall not be used for any other purpose while any of the Subordinate Obligations or Reimbursement Obligations with respect to Subordinate Obligations remain unpaid. Such pledge of the Net Revenues, and the lien thereon created by the Master Agreement, shall be junior and subordinate to the pledge of, and lien on, the Net Revenues for the payment of the Senior Obligations and Reimbursement Obligations with respect to Senior Obligations.

*Allocation of Revenues.* The District, in order to carry out and effectuate the pledge contained in the Master Agreement, agrees and covenants that all Operating Revenues received by it shall be deposited when and as received in the Revenue Account. Additionally, amounts may, from time to time as the District deems necessary or appropriate, be transferred from the Rate Stabilization Account and deposited in the Revenue Account. The District shall pay from the Revenue Account all Maintenance and Operations Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operations Costs, the payment of which is not immediately required) as and when the same shall be due and payable.

After having paid, or having made provision for the payment of, Maintenance and Operations Costs, the District shall set aside and deposit or transfer, as the case may be, from the Revenue Account the amounts set forth below at the following times and in the following order of priority:

- (a) Senior Obligation Payment Account. On or before each date on which amounts are due and payable on any Senior Obligations and on each date on which any Reimbursement Obligations with respect to Senior Obligations are due and payable, the District shall transfer legally available Net Revenues to the Senior Obligation Payment Account in an amount which, together with other amounts on deposit therein, is at least sufficient to make the required payments with respect to such Senior Obligations or such Reimbursement Obligations. In the

event that the District has insufficient Net Revenues to make all of the transfers contemplated by this paragraph (a), then such transfers shall be made, as nearly as practicable, pro rata, based on the respective principal amounts of the Senior Obligations and Reimbursement Obligations, payments with respect to which are required to be made

(b) Senior Obligation Reserve Funds. The District shall transfer to each Obligation Trustee for its Senior Obligation Securities, for deposit in the applicable Obligation Reserve Fund, legally available Net Revenues in an amount equal to the amount, if any, required to be deposited therein to build up or replenish such Obligation Reserve Fund as and to the extent required by (i) such Senior Obligation Securities, (ii) the Issuing Instrument pursuant to which such Senior Obligation Securities are issued, incurred or executed and delivered, and (iii) the Senior Contract, interests in the Senior Contract Payments payable under and pursuant to which are evidenced by such Senior Obligation Securities. In the event that there are insufficient Net Revenues to make all of the transfers contemplated by this paragraph (b), then said transfers shall be made, as nearly as practicable, pro rata, based on the respective Outstanding Principal Amounts of the Senior Obligation Securities, deposits to the Obligation Reserve Funds for which are required to be made.

(c) Subordinate Obligation Payment Account. On or before each date on which amounts are due and payable on any Subordinate Obligations and on each date on which any Reimbursement Obligations with respect to Subordinate Obligations are due and payable, the District shall transfer legally available Net Revenues to the Subordinate Obligation Payment Account in an amount which, together with other amounts on deposit therein, is at least sufficient to make the required payments with respect to such Subordinate Obligations or such Reimbursement Obligations. In the event that the District has insufficient Net Revenues to make all of the transfers contemplated by this paragraph (c), then such transfers shall be made, as nearly as practicable, pro rata, based on the respective principal amounts of the Subordinate Obligations and Reimbursement Obligations, payments with respect to which are required to be made.

(d) Subordinate Obligation Reserve Funds. The District shall transfer to each Obligation Trustee for its Subordinate Obligation Securities, for deposit in the applicable Obligation Reserve Fund, legally available Net Revenues in an amount equal to the amount, if any, required to be deposited therein to build up or replenish such Obligation Reserve Fund as and to the extent required by (i) such Subordinate Obligation Securities, (ii) the Issuing Instrument pursuant to which such Subordinate Obligation Securities are issued, incurred or executed and delivered, and (iii) the Subordinate Contract, interests in the Subordinate Contract Payments payable under and pursuant to which are evidenced by such Subordinate Obligation Securities. In the event that there are insufficient Net Revenues to make all of the transfers contemplated by this paragraph (b), then said transfers shall be made, as nearly as practicable, pro rata, based on the respective Outstanding Principal Amounts of the Subordinate Obligation Securities, deposits to the Obligation Reserve Funds for which are required to be made.

(e) Rate Stabilization Account. The District may, from time to time as the District deems necessary or appropriate, transfer Net Revenues in the Revenue Account to the Rate Stabilization Account.

Amounts required or permitted to be deposited or transferred pursuant to the provisions described in paragraph (b), (c), (d) or (e), above, shall not be so deposited or transferred unless the District shall have determined that there will be sufficient Net Revenues available to make the required deposits or transfers pursuant to the provisions described in all paragraphs under this heading prior to said paragraph on the dates on which such deposits or transfers are required to be made. So long as the District has



determined that Net Revenues will be sufficient to make all of the deposits or transfers required to be made pursuant to paragraphs (a), (b), (c), (d) and (e), above, on the dates on which such deposits or transfers are required to be made, Net Revenues on deposit in the Revenue Account may from time to time be used for any purpose for which District funds may be legally applied.

*Senior Obligation Payment Account.* The District shall transfer from the Senior Obligation Payment Account to the appropriate Person the Senior Obligation Payments and the payments of Reimbursement Obligations with respect to Senior Obligations as and when due and payable. In the event there are insufficient amounts on deposit in the Senior Obligation Payment Account to make all of such Senior Obligation Payments and such Reimbursement Obligation payments, then said payments shall be made, as nearly as practicable, pro rata, based on the respective principal amounts of the Senior Obligation Payments and Reimbursement Obligations due and payable.

*Subordinate Obligation Payment Account.* The District shall transfer from Subordinate Obligation Payment Account to the appropriate Person the Subordinate Obligation Payments and the payments of Reimbursement Obligations with respect to Subordinate Obligations as and when due and payable. In the event there are insufficient amounts on deposit in the Subordinate Obligation Payment Account to make all of such Subordinate Obligation Payments and such Reimbursement Obligation payments, then said payments shall be made, as nearly as practicable, pro rata, based on the respective principal amounts of the Subordinate Obligation Payments and Reimbursement Obligations due and payable.

*Rate Stabilization Account.* Amounts on deposit in the Rate Stabilization Account may, from time to time as the District deems necessary or appropriate, be transferred to the Revenue Account and applied as provided in the Master Agreement.

### **Existing Obligations; Additional Obligations**

*Existing Obligations.* (a) *Definitions.* Unless the context otherwise requires, the terms defined in this paragraph shall for purposes of this heading have the meanings defined in the Master Agreement, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined in the Master Agreement:

“Existing Senior Obligations” means the 2003 Installment Purchase Agreement, the 2007A Installment Purchase Agreement, the 2007B Installment Purchase Agreement, the 2008A Installment Purchase Agreement, the 2008B Installment Purchase Agreement and the 2008C Installment Purchase Agreement.

*Additional Senior Obligations.* The District may at any time incur Senior Obligations in addition to the Existing Senior Obligations payable from Net Revenues as provided in the Master Agreement on a parity with all other Senior Obligations theretofore incurred, but only subject to the following conditions, which are by the Master Agreement made conditions precedent to the incurrence of such Senior Obligations:

- (a) Upon the incurrence of such Senior Obligations, no Master Agreement Event of Default shall be continuing under the Master Agreement.
- (b) Subject to the provisions of paragraph (c), below, the District shall have received either one of the following:

(i) a Written Certificate of the District certifying that, for a 12 consecutive calendar month period during the 24 consecutive calendar month period ending in the calendar month prior to the incurrence of such Senior Obligations (which 12 consecutive calendar month period shall be specified in such certificate or certificates) (A) Net Revenues, as shown by the books of the District, shall have amounted to at least 125% of Maximum Annual Debt Service on all Senior Obligations to be outstanding immediately after the incurrence of such Senior Obligations, and (B) Net Operating Revenues, as shown by the books of the District, shall have amounted to at least 100% of Maximum Annual Debt Service on all Obligations to be outstanding immediately after the incurrence of such Senior Obligations. For purposes of demonstrating compliance with the foregoing, Net Revenues and Net Operating Revenues may be adjusted for (x) any changes in fees and charges for the services of the Wastewater System which have been adopted and are in effect on the date such Senior Obligations are incurred, but which, during all or any part of such 12 consecutive calendar month period, were not in effect, (y) customers added to the Wastewater System subsequent to such 12 consecutive calendar month period but prior to the date such Senior Obligations are incurred, and (z) the estimated change in available Net Revenues and Net Operating Revenues which will result from the connection of existing residences or businesses to the Wastewater System within one year following completion of any project to be funded or any system to be acquired from the proceeds of such Senior Obligations; or

(ii) a certificate or certificates from one or more Consultants which, when taken together, project that, for each of the two Fiscal Years next succeeding the incurrence of such Senior Obligations (A) Net Revenues will amount to at least 125% of Maximum Annual Debt Service on all Senior Obligations to be outstanding immediately after the incurrence of such Senior Obligations, and (B) Net Operating Revenues will amount to at least 100% of Maximum Annual Debt Service on all Obligations to be outstanding immediately after the incurrence of such Senior Obligations. For purposes of demonstrating compliance with the foregoing, Net Revenues and Net Operating Revenues may be adjusted for (x) any changes in fees and charges for the services of the Wastewater System which have been adopted and are in effect on the date such Senior Obligations are incurred or will go into effect prior to the end of such two Fiscal Year period, (y) customers expected to be added to the Wastewater System prior to the end of such two Fiscal Year period, and (z) the estimated change in available Net Revenues and Net Operating Revenues which will result from the connection of existing residences or businesses to the Wastewater System within one year following completion of any project to be funded or any system to be acquired from the proceeds of such Senior Obligations. For purposes of preparing the certificate or certificates described above, the Consultant may rely upon financial statements prepared by the District that have not been subject to audit by an independent certified public accountant if audited financial statements for the period are not available.

The provisions of this paragraph (b) need not be complied with if the Senior Obligations being incurred are Short-Term Obligations excluded from the calculation of Assumed Debt Service pursuant to clause (II) of the definition thereof.

(c) Notwithstanding the foregoing, if (i) a portion (which may be all) of Senior Obligations are incurred for the purpose of providing funds to refund or refinance any Obligations, (ii) upon such refunding or refinancing, debt service on such refunded or refinanced Obligations, or debt service on the Related Bonds of such Obligations, will no longer be included in the calculation of Assumed Debt Service either because such Obligations, or the Related Bonds

of such Obligations, will have been paid in full or because such debt service is disregarded pursuant to clause (L) of the definition of Assumed Debt Service, and (iii) Assumed Debt Service in each Fiscal Year for the portion of such Senior Obligations incurred for the purpose of providing funds to refund or refinance such Obligations is less than or equal to 105% of Assumed Debt Service in such Fiscal Year for such Obligations being refunded or refinanced (assuming for such purposes that debt service on such refunded or refinanced Obligations, or debt service on the Related Bonds of such Obligations, is not disregarded pursuant to clause (L) of the definition of Assumed Debt Service), the provisions of paragraph (b) above, need not be complied with for such portion of such Senior Obligations incurred for the purpose of providing funds to refund or refinance such Obligations.

The District may at any time incur Reimbursement Obligations with respect to Senior Obligations.

*Subordinate Obligations.* The District may at any time incur Subordinate Obligations; provided, however, that prior to incurring such Subordinate Obligations, the District shall have determined that the incurrence thereof will not materially adversely affect the District's ability to comply with the requirements of the Master Agreement relating to amount of fees and charges. The District may at any time incur Reimbursement Obligations with respect to Subordinate Obligations.

## **Covenants**

*Punctual Payment.* The District will punctually pay or cause to be paid the Obligation Payments to become due in respect of all the Obligations, in strict conformity with the terms of the Obligations, the instruments pursuant to which the Obligations are incurred and the Master Agreement, according to the true intent and meaning thereof, but only out of Net Revenues as provided in the Master Agreement. The District will punctually pay or cause to be paid the amounts to become due in respect of all the Reimbursement Obligations, in strict conformity with the terms of the Credit Facilities pursuant to which the Reimbursement Obligations arise and the Master Agreement, according to the true intent and meaning thereof, but only out of Net Revenues as provided in the Master Agreement.

*Against Encumbrances.* (a) Except as otherwise provided in the Master Agreement, the District will not mortgage or otherwise encumber, pledge or place any charge upon the Wastewater System or any part thereof, except for Permitted Encumbrances. The District shall discharge or cause to be discharged, or shall make adequate provision to satisfy and discharge, within 60 days after the same become due and payable, all lawful costs, expenses, liabilities and charges relating to the maintenance, repair, replacement or improvement of the properties constituting the Wastewater System or the operation of the Wastewater System and lawful claims and demands for labor, materials, supplies or other objects that might by law become a lien upon the Wastewater System or Net Revenues if unpaid. Nothing described under this heading shall require the District to pay or cause to be discharged, or make provision for the payment, satisfaction and discharge of, any lien, charge, cost, liability, claim or demand so long as the validity thereof is contested in good faith and by appropriate legal proceedings.

(b) The District may incur obligations secured by a lien on (i) rolling stock comprising a part of the Wastewater System without limitation, and (ii) other property, plant and equipment comprising a part of the Wastewater System; provided, however, that the principal amount of such obligations outstanding at any one time shall not exceed 5% of the net property, plant and equipment of the Wastewater System (not taking into account any outstanding obligations with respect to rolling stock that is a part of the Wastewater System) as shown on the audited financial statements of the District for the most recent Fiscal Year for which audited financial statements are available.

(c) So long as any Obligations of the District are outstanding, the District will not issue any bonds or incur obligations payable from Revenues or secured by a pledge, lien or charge upon Revenues, except as provided in the Master Agreement.

*Against Sale or Other Disposition of Property.* The District will not sell, lease or otherwise dispose of the Wastewater System or any part thereof essential to the proper operation of the Wastewater System or to the maintenance of Revenues; provided, however, that (a) any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Wastewater System, or any material or equipment which has become worn out, may be sold if such sale will not materially reduce Net Revenues and if the proceeds of such sale are deposited in the Operating Fund, and (b) if the fair market value of any item of real or personal property to be sold, leased or otherwise disposed of in any Fiscal Year in accordance with the provisions of the Master Agreement described under this heading shall be in excess of 1% of net property, plant and equipment of the Wastewater System calculated in accordance with Generally Accepted Accounting Principles, or if the fair market value of any such item together with the fair market value of all other such items so sold, leased or disposed of in such Fiscal Year shall aggregate in excess of 1% of net property, plant and equipment of the Wastewater System calculated in accordance with Generally Accepted Accounting Principles, then no such sale, lease or other disposition shall be effected without first obtaining the written confirmation of a Consultant that the conditions to such sale, lease or other disposal specified in the provisions of the Master Agreement described under this heading have been satisfied. The District will not enter into any agreement or lease which impairs the operation of the Wastewater System or any part thereof necessary to secure adequate Revenues for the payment of Obligations or which would otherwise impair the rights of the Corporation with respect to Revenues or the operation of the Wastewater System.

*Maintenance and Operations of the Wastewater System: Budgets.* The District will maintain and preserve the Wastewater System in good repair and working order at all times and will operate the Wastewater System in an efficient and economical manner and will pay all Maintenance and Operations Costs as they become due and payable; provided, however, that the District shall not be required to pay such Maintenance and Operations Costs if the validity thereof shall be contested in good faith (so long as such nonpayment will not materially adversely affect the District's ability to perform its obligations under the Master Agreement).

The District will prepare and adopt an annual budget for the Wastewater System for each Fiscal Year. Such budget shall set forth in reasonable detail the Revenues anticipated to be derived in such Fiscal Year and the expenditures anticipated to be paid or provided for therefrom in such Fiscal Year, including, without limitation, the amounts required to pay or provide for the payment of the Obligations during such Fiscal Year, the amounts required to pay or provide for the payment of Maintenance and Operations Costs during such Fiscal Year and the amounts required to pay or provide for the payment of all other claims or obligations required to be paid from Revenues in such Fiscal Year, and shall show that Revenues and Net Revenues shall be at least sufficient to satisfy the requirements of the Master Agreement relating to amount of fees and charges. On or before September 1 of each Fiscal Year, commencing September 1, 2000, the District will file with each Obligation Trustee a copy of the adopted budget for such Fiscal Year. Any budget may be amended at any time by the District during the Fiscal Year; provided, however, that any such amended budget shall show that Revenues and Net Revenues shall be at least sufficient to satisfy the requirements of the Master Agreement relating to amount of fees and charges. On or before the date 60 days after the adoption of any such amended budget, the District will file a copy of such amended budget with each Obligation Trustee.

*Amount of Fees and Charges.* The District will, to the extent permitted by law, fix, prescribe and collect fees and charges for the services and facilities of the Wastewater System which will be at least sufficient to yield during each Fiscal Year (a) Net Revenues equal to 125% of Debt Service on Senior

Obligations for such Fiscal Year, and (b) Net Operating Revenues equal to 100% of Debt Service on all Obligations for such Fiscal Year. The District may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the fees and charges then in effect unless the Revenues and Net Revenues from such reduced fees and charges will at all times be sufficient to meet the requirements of the Master Agreement described under this heading.

*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 Revenues or any part thereof or on any funds in the hands of the District or an Obligation Trustee which might impair the security of the Obligations; provided, however, that the District shall not be required to pay such claims if the validity thereof shall be contested in good faith (so long as such nonpayment will not materially adversely affect the District's ability to perform its obligations under the Master Agreement or under any Obligation).

*Compliance with Contracts.* The District will comply with, keep, observe and perform all material agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Wastewater System and all other contracts affecting or involving the Wastewater System.

*Insurance.* The District will procure and maintain or cause to be procured and maintained casualty insurance on the Wastewater System with responsible insurers, or provide self insurance (which may be provided in the form of risk-sharing pools), in such amounts and against such risks (including accident to or destruction of the Wastewater System) as are usually covered in connection with facilities similar to the Wastewater System. In the event of any damage to or destruction of the Wastewater System caused by the perils covered by such insurance or self insurance, the Net Proceeds thereof shall be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Wastewater System. The District shall begin such reconstruction, repair or replacement promptly after such damage or destruction shall occur, and shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Wastewater System shall be free and clear of all claims and liens unless the District determines that such property or facility is not necessary to the efficient or proper operation of the Wastewater System and therefore determines not to reconstruct, repair or replace such project or facility. If such Net Proceeds exceed the costs of such reconstruction, repair or replacement, then the excess Net Proceeds shall be deposited in the Operating Fund and be available for other proper uses of funds deposited in the Operating Fund.

The District will procure and maintain such other insurance which it shall deem advisable or necessary to protect its interests and the interests of the Corporation, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with facilities similar to the Wastewater System; provided, however, that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with facilities similar to the Wastewater System and is, in the opinion of an accredited actuary, actuarially sound.

*Accounting Records; Financial Statements and Other Reports.* (a) The District will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Wastewater System, which records shall be available for inspection by the Corporation and each Obligation Trustee at reasonable hours and under reasonable conditions.

(b) The District will prepare and file with the Corporation and each Obligation Trustee annually within 180 days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2000):

(i) financial statements of the District for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, together with an Accountant's Report thereon; and

(ii) a summary report showing in reasonable detail Revenues, Maintenance and Operations Costs, Net Revenues and Debt Service for such Fiscal Year.

(c) On or before September 1 of each Fiscal Year, commencing September 1, 2000, the District will file with the Corporation and each Obligation Trustee a copy of the adopted budget for such Fiscal Year.

(d) On or before the date 60 days after the adoption of any amended budget, the District will file a copy of such amended budget with the Corporation and each Obligation Trustee.

*Protection of Security and Rights.* The District will preserve and protect the security of the Master Agreement and the rights of the Obligation Trustees and the Owners to the Obligation Payments and other payments required to be made by the District under the Master 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, if any, which may hereafter be lawfully imposed upon the Wastewater System or any part thereof or upon the Revenues, when the same shall become due; provided, however, that the District shall not be required to pay such taxes, assessments or governmental charges if the validity thereof shall be contested in good faith (so long as such nonpayment will not materially adversely affect the District's ability to perform its obligations under the Master Agreement).

The District will duly observe and comply with all valid regulations and requirements of any governmental authority relative to the operation of the Wastewater System or any part thereof; provided, however, that the District shall not be required to comply with any such regulations or requirements so long as the validity or application thereof shall be contested in good faith.

*Collection of Fees and Charges; No Free Service.* The District will have in effect at all times rules and regulations for the payment of bills for services and facilities of the Wastewater System, which rules and regulations shall provide for a due date and a delinquency date for each bill. The District will not permit any part of the Wastewater System to be used or taken advantage of free of charge by any Person, except to the extent required by federal or State law.

*Eminent Domain Proceeds.* If all or any part of the Wastewater System shall be taken by eminent domain proceedings, the Net Proceeds thereof shall be applied to the replacement of the property or facilities so taken, unless the District determines that such property or facilities are not necessary to the efficient or proper operation of the Wastewater System and therefore determines not to replace such property or facilities. Any Net Proceeds of such award not applied to replacement, or remaining after such work has been completed, shall be deposited in the Operating Fund and be available for other proper uses of funds deposited in its Operating Fund.

*Indemnification of Corporation.* To the extent permitted by law, the District by the Master Agreement agrees to indemnify and hold the Corporation and its members and officers harmless against any and all liabilities which might arise out of or are related to the Master Agreement, the Obligations or the Obligation Securities, and the District further agrees to defend the Corporation and its members and officers in any action arising out of or related to the Master Agreement, the Obligations or the Obligation Securities.

## **Events of Default and Remedies**

*Master Agreement Events of Default.* The following shall be Events of Default under the Master Agreement, and Master Agreement Event of Default shall mean any one or more of the following events:

(a) if default shall be made by the District in the due and punctual payment of or on account of any Senior Obligation as the same shall become due and payable;

(b) if default shall be made by the District in the performance of any of the agreements or covenants required to be performed by it in the Master Agreement (other than as specified in (a) above), and such default shall have continued for a period of 60 days after the District shall have been given notice in writing of such default by the Corporation or any Obligation Trustee;

(c) if an event of default shall have otherwise occurred and be continuing under any Senior Obligation, under any Senior Obligation Securities or under the Issuing Instrument pursuant to which any Senior Obligation Securities are issued, incurred or executed and delivered; or

(d) if the District shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property.

If a Master Agreement Event of Default shall have occurred and be continuing, the Corporation, or any Senior Obligation Trustee may, by written notice to the District, declare the unpaid Senior Obligation Payments, and the accrued interest thereon, immediately due and payable, whereupon anything contained in the Master Agreement to the contrary notwithstanding, said amounts shall, without further action, become and be immediately due and payable with, to the extent permitted by law, interest on such accelerated amounts at a rate per annum equal to the default rate specified in the instrument pursuant to which the respective Senior Obligations were incurred; provided, however, that, notwithstanding the foregoing, no Senior Obligation Payments payable under and pursuant to Senior Obligations that are Credit Enhanced Obligations shall be accelerated without the written consent of related Credit Enhancer and, provided, further, that nothing in the Master Agreement shall affect the rights of the parties to a Financial Contract to terminate such Financial Contract. If at any time after the principal amount of such unpaid Senior Obligation Payments, and the accrued interest thereon, shall have so accelerated and before any judgment or decree of the payment of the moneys due shall have been obtained or entered, the District shall pay the unpaid amount of all such Senior Obligation Payments due prior to such declaration, with interest on such overdue Senior Obligation Payments at the rate or rates applicable thereto in accordance with their terms, and the reasonable expenses of the Corporation and the

Senior Obligation Trustees, if any, and any and all other defaults (other than in the payment of the unpaid Senior Obligation Payments, and the accrued interest thereon, due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Corporation and the Senior Obligation Trustees or provision deemed by the Corporation and the Senior Obligation Trustees to be adequate shall have been made therefor, then and in every such case the Corporation, by written notice to the District, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon. All Net Revenues received after the date of acceleration of the Senior Obligation Payments, and the accrued interest thereon, shall be applied, first, to the payment of the costs and expenses of the Corporation and the Senior Obligation Trustees, if any, in carrying out the provisions of the Master Agreement relating to events of default, including reasonable compensation of its and their accountants and counsel, second, to the payment of the entire amount of unpaid Senior Obligation Payments, and the accrued interest thereon at the rate or rates of interest applicable thereto, and to the payment of unpaid Reimbursement Obligations with respect to Senior Obligations, in accordance with their respective terms; provided, however, that if such Net Revenues are not sufficient to pay such amounts in full, then said Net Revenues shall be applied, as nearly as practicable, pro rata, based on the respective principal amounts of unpaid Senior Obligations and Reimbursement Obligations with respect to Senior Obligations and, third, to such other liabilities of the District as are then payable.

*Remedies on Default.* Upon the occurrence of a Master Agreement Event of Default, each of the Corporation and each Obligation Trustee shall have the right:

- (i) 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 and carry out his or her duties under applicable law and the agreements and covenants required to be performed by him or her contained in the Master Agreement;
- (ii) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Corporation or such Obligation Trustee;
- (iii) by suit in equity require the District and its board members, officers and employees to account as the trustee of an express trust; and
- (iv) to have a receiver or receivers appointed for the Wastewater System and of the issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer.

*Non-Waiver.* Nothing in the Master Agreement shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the Obligation Payments at the respective due dates from the Net Revenues and the other funds in the Master Agreement committed for such payment, or shall affect or impair the right of the Corporation and each Obligation Trustee, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Master Agreement.

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



Corporation or an Obligation Trustee by applicable law or by the provisions of the Master Agreement relating to events of default and remedies may be enforced and exercised from time to time and as often as shall be deemed expedient by the Corporation and each Obligation Trustee.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Corporation and the Obligation Trustees, the District, the Corporation and the Obligation Trustees shall 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 Master Agreement conferred upon or reserved to the Corporation and the Obligation Trustees is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Master Agreement or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by law.

## **Amendments**

*Amendments.* (a) The Master Agreement and the rights and obligations of the District, the Corporation, the Obligation Trustees and the Owners of Obligation Securities may be amended or modified from time to time and at any time by a written amendment to the Master Agreement executed by the District, the Corporation and the Obligation Trustees, with the written consent of the Owners of a majority of the aggregate Principal Amount of Obligation Securities then Outstanding. No such amendment or modification shall (i) reduce the percentage of Owners of the Obligation Securities whose consent is required to effect any such amendment or modification, or (ii) permit the creation of any lien on the Net Revenues for the payment of the Obligations prior to or on a parity with the liens created by the Master Agreement or deprive the Owners of the Obligation Securities of the lien created by the Master Agreement on such Net Revenues (except as expressly provided in the Master Agreement), without the consent of the Owners of all of the Obligation Securities then Outstanding.

(b) The Master Agreement and the rights and obligations of the District, the Corporation, the Senior Obligation Trustees and the Owners of Senior Obligation Securities may be amended or modified from time to time and at any time by a written amendment to the Master Agreement executed by the District, the Corporation and the Senior Obligation Trustees, provided that such amendment or modification does not materially adversely affect the interests under the Master Agreement of the Subordinate Obligation Trustees or the Owners of Subordinate Obligation Securities, with the written consent of the Owners of a majority of the aggregate Principal Amount of Senior Obligation Securities then Outstanding. No such amendment or modification shall (i) reduce the percentage of Owners of the Senior Obligation Securities whose consent is required to effect any such amendment or modification, or (ii) permit the creation of any lien on the Net Revenues for the payment of the Senior Obligations prior to or on a parity with the lien created by the Master Agreement or deprive the Owners of the Senior Obligation Securities of the lien created by the Master Agreement on such Net Revenues (except as expressly provided in the Master Agreement), without the consent of the Owners of all of the Senior Obligation Securities then Outstanding.

(c) The Master Agreement and the rights and obligations of the District, the Corporation, the Subordinate Obligation Trustees and the Owners of Subordinate Obligation Securities may be amended or modified from time to time and at any time by a written amendment to the Master Agreement executed by the District, the Corporation and the Subordinate Obligation Trustees, provided that such amendment or modification does not materially adversely affect the interests under the Master Agreement of the Senior Obligation Trustees or the Owners of Senior Obligation Securities, with the written consent of the Owners of a majority of the aggregate Principal Amount of Subordinate Obligation Securities then

Outstanding. No such amendment or modification shall (i) reduce the percentage of Owners of the Subordinate Obligation Securities whose consent is required to effect any such amendment or modification, or (ii) permit the creation of any lien on the Net Revenues for the payment of the Subordinate Obligations prior to or on a parity with the lien created by the Master Agreement or deprive the Owners of the Subordinate Obligation Securities of the lien created by the Master Agreement on such Net Revenues (except as expressly provided in the Master Agreement), without the consent of the Owners of all of the Subordinate Obligation Securities then Outstanding.

(d) The Master Agreement and the rights and obligations of the District, the Corporation, the Obligation Trustees and the Owners may be amended or modified from time to time and at any time by a written amendment to the Master Agreement executed by the District, the Corporation and the Obligation Trustees, without the written consents of any Owners of Obligation Securities, but only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the agreements, conditions, covenants and terms required by the District, the Corporation or the Obligation Trustees, to be observed or performed in the Master Agreement other agreements, conditions, covenants and terms thereafter to be observed or performed by the District, the Corporation or the Obligation Trustees, or to surrender any right or power reserved in the Master Agreement to or conferred in the Master Agreement on the District, the Corporation or the Obligation Trustees and which in either case shall not materially adversely affect the interests of the Owners of the Obligation Securities;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Master Agreement or in regard to questions arising under the Master Agreement which the District, the Corporation or the Obligation Trustees may deem desirable or necessary and not inconsistent with the Master Agreement, and which shall not materially adversely affect the interests of the Owners of the Obligation Securities;

(iii) to make such other amendments or modifications to the Master Agreement as the District, the Corporation or the Obligation Trustees may deem desirable or necessary, and which shall not materially adversely affect the interests of the Owners of the Obligation Securities.

## **Miscellaneous**

*Liability of District Limited.* Notwithstanding anything contained in the Master Agreement to the contrary, the District shall not be required to advance any moneys derived from any source of income other than Net Revenues and the other funds provided in the Master Agreement for the payment of the Obligation Payments and other payments required to be made by it under the Master Agreement, or for the performance of any agreements or covenants required to be performed by it contained in the Master Agreement. The District may, however, but in no event shall be obligated to, 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 pay the Obligation Payments and other payments required to be made by it under the Master Agreement is a special obligation of the District payable, in the manner provided in the Master Agreement, solely from Net Revenues and other funds provided for in the Master Agreement, and does not constitute a debt of the District or of the State, or of any political subdivision thereof, in contravention of any constitutional or statutory debt limitation or restriction. Neither the faith

and credit nor the taxing power of the District or the State, or any political subdivision thereof, is pledged to the payment of the Obligation Payments or other payments required to be made under the Master Agreement.

*Limitation of Rights.* Nothing in the Master Agreement expressed or implied is intended or shall be construed to give to any Person other than the District, the Corporation, the Obligation Trustees and the Owners of the Obligation Securities, any legal or equitable right, remedy or claim under or in respect of the Master Agreement or any covenant, condition or provision therein or in the Master Agreement contained, and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the District, the Corporation, the Obligation Trustees and the Owners of the Obligation Securities.

*Contract with Owners.* In consideration of the acceptance of the Obligation Securities by those who shall be Owners of the same from time to time, the Master Agreement shall be deemed to be and shall constitute a contract between the District and the Owners from time to time of the Obligation Securities to secure the full and final payment of the Obligations, subject to the agreements, conditions, covenants and terms contained in the Master Agreement.

*Third-Party Beneficiaries.* The Obligation Trustees are third-party beneficiaries of the Master Agreement.

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

*Waiver of Personal Liability.* No official, officer or employee of the District shall be individually or personally liable for the payment of the Obligation Payments or other payments required to be made by the District under the Master Agreement, but nothing contained in the Master Agreement shall relieve any official, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or by the Master Agreement.

**APPENDIX D**

**FORM OF CONTINUING DISCLOSURE AGREEMENT**

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## CONTINUING DISCLOSURE AGREEMENT

**THIS CONTINUING DISCLOSURE AGREEMENT** (this “Disclosure Agreement”), dated as of October 1, 2011, is by and between the ORANGE COUNTY SANITATION DISTRICT, a county sanitation district organized and existing under the laws of the State of California (the “District”), and DIGITAL ASSURANCE CERTIFICATION LLC, as Dissemination Agent (the “Dissemination Agent”).

### WITNESSETH:

**WHEREAS**, the District has caused to be executed and delivered Orange County Sanitation District Wastewater Refunding Revenue Obligations, Series 2011A (the “Revenue Obligations”), evidencing principal in the aggregate amount of \$147,595,000, pursuant to a Trust Agreement, dated as of the date hereof (the “Trust Agreement”), by and among Union Bank, N.A., as trustee (the “Trustee”), the Orange County Sanitation District Financing Corporation (the “Corporation”) and the District; and

**WHEREAS**, this Disclosure Agreement is being executed and delivered by the District and the Dissemination Agent for the benefit of the owners and beneficial owners of the Revenue Obligations and in order to assist the purchaser of the Revenue Obligations in complying with the Rule (as defined herein);

**NOW, THEREFORE**, for and in consideration of the mutual promises and covenants herein contained, the parties hereto agree as follows:

**Section 1. Definitions.** Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Trust Agreement or, if not defined therein, in the Master Agreement, dated as of August 1, 2000, by and between the District and the Corporation. In addition, the following capitalized terms shall have the following meanings:

“**Annual Report**” means any Annual Report provided by the District pursuant to, and as described in, Sections 2 and 3 hereof.

“**Annual Report Date**” means the date in each year that is eight months after the end of the Fiscal Year, which date, as of the date of this Disclosure Agreement, is March 1.

“**Disclosure Representative**” means the Director of Finance and Administrative Services of the District, or such other officer or employee of the District as the District shall designate in writing to the Dissemination Agent and the Trustee from time to time.

“**Dissemination Agent**” means an entity selected and retained by the District, or any successor thereto selected by the District. The initial Dissemination Agent shall be Digital Assurance Certification LLC.

“**EMMA**” shall mean Electronic Municipal Market Access system, maintained on the internet at <http://emma.msrb.org> by the MSRB.

“**Fiscal Year**” shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve-month or fifty-two week period hereafter selected by the District, with notice of such selection or change in fiscal year to be provided as set forth herein.

**“Listed Events”** means any of the events listed in Section 4 hereof and any other event legally required to be reported pursuant to the Rule.

**“MSRB”** means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934 or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through EMMA.

**“Official Statement”** means the Official Statement, dated September 15, 2011, relating to the Revenue Obligations.

**“Participating Underwriter”** means any of the original purchaser(s) of the Revenue Obligations required to comply with the Rule in connection with the offering of the Revenue Obligations.

**“Repository”** means, until otherwise designated by the SEC, EMMA.

**“Rule”** means Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as the same has been or may be amended from time to time.

**“SEC”** shall mean the United States Securities and Exchange Commission.

## **Section 2. Provision of Annual Reports.**

(a) The District shall provide, or shall cause the Dissemination Agent to provide, to MSRB, through EMMA, not later than 15 days prior to the Annual Report Date, an Annual Report which is consistent with the requirements of Section 3 of this Disclosure Agreement. The Annual Report must be submitted in electronic format, accompanied by such identifying information as provided by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 3 of this Disclosure Agreement. Not later than 15 Business Days prior to such date, the District shall provide the Annual Report to the Dissemination Agent. If the Fiscal Year changes for the District, the District shall give notice of such change in the manner provided under Section 4(e) hereof.

(b) If by 15 Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, through EMMA, the Dissemination Agent has not received a copy of the Annual Report the Dissemination Agent shall contact the District to determine if the District is in compliance with subsection (a). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the District and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine the electronic filing address of, and then-current procedures for submitting Annual Reports to, the MSRB each year prior to the date for providing the Annual Report; and

(ii) (if the Dissemination Agent is other than the Trustee), to the extent appropriate information is available to it, file a report with the Authority certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

**Section 3. Content of Annual Reports.** The District's Annual Report shall contain or incorporate by reference the following:

(a) Audited financial statements 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 subsection (a) of Section 2 hereof, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The principal evidenced by the Revenue Obligations Outstanding as of the January 1 next preceding the Annual Report Date and the principal amount of other Senior Obligations outstanding as of the January 1 next preceding the Annual Report Date.

(c) A summary report showing in reasonable detail Revenues, Operating Revenues, Maintenance and Operation Costs, Net Revenues, Net Operating Revenues and debt service with respect to the Senior Obligations for the Fiscal Year ended the June 30 next preceding the Annual Report Date.

(d) An update, for the Fiscal Year ended the June 30 next preceding the Annual Report Date, of the information contained in the Official Statement in Table Nos. 2, 4, 6 (only with respect to information on 6 under the headings Fiscal Year and Sewer Service Charge), 8 (not to include projections), 9, 10, 11, 12, 13, 14 and 16.

(e) In addition to any of the information expressly required to be provided under subsections (a), (b), (c) and (d) of this Section, the District shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the District is an "obligated person" (as defined by the Rule), which are available to the public on EMMA or filed with the SEC. The District shall clearly identify each such document to included by reference.

**Section 4. Reporting of Significant Events.**

(a) Pursuant to the provisions of this Section 4, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Revenue Obligations, in a timely manner not more than ten (10) Business Days after the event:

- (1) principal and interest payment delinquencies;
- (2) defeasances;
- (3) tender offers;
- (4) rating changes;



(5) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax- status of the Revenue Obligations;

(6) unscheduled draws on the debt service reserves reflecting financial difficulties;

(7) unscheduled draws on credit enhancements reflecting financial difficulties;

(8) substitution of credit or liquidity providers or their failure to perform; or

(9) bankruptcy, insolvency, receivership or similar proceedings.

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

(b) Pursuant to the provisions of this Section 4, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Revenue Obligations, if material:

(1) mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the obligated persons or their termination;

(2) appointment of a successor or additional Trustee or the change of the name of a Trustee;

(3) nonpayment related defaults;

(4) modifications to the rights of Owners;

(5) a notices of prepayment; or

(6) release, substitution or sale of property securing repayment of the Revenue Obligations.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event, described in subsection (b) of this Section 4, the District shall as soon as possible determine if such event would be material under applicable federal securities law.

(d) If the District determines that knowledge of the occurrence of a Listed Event described in subsection (b) of this Section 4 would be material under applicable federal securities law, the District

shall promptly notify the Dissemination Agent in writing and instruct the Dissemination Agent to report the occurrence to the Repository in a timely manner not more than ten (10) Business Days after the event.

(e) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB.

**Section 5. Filings with the MSRB.** All information, operating data, financial statements, notices and other documents provided to the MSRB in accordance with this Disclosure Agreement shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

**Section 6. Termination of Reporting Obligation.** The District's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Revenue Obligations. If such termination occurs prior to the final maturity of the Revenue Obligations, the District shall give notice of such termination in the same manner as for a Listed Event under Section 4 hereof.

**Section 7. Dissemination Agent.** The District may, from time to time, appoint or engage another Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent; provided it shall receive written notice of such designation at the time of such designation. Notwithstanding any other provision to this Disclosure Agreement to the contrary, the District may provide any Annual Report to Beneficial Owners by means of posting such Annual Report on an internet site that provides open access to Beneficial Owners.

**Section 8. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement, provided no amendment increasing or affecting the obligations or duties of the Dissemination Agent shall be made without the consent of such party, and any provision of this Disclosure Agreement may be waived if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to the District and the Dissemination Agent to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

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

**Section 10. Default.** In the event of a failure of the District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee, at the written direction of any Participating Underwriter or the holders of at least 25% of the aggregate amount of principal evidenced by Outstanding Revenue Obligations and upon being indemnified to its reasonable satisfaction, shall, or any holder or beneficial owner of the Revenue Obligations may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District, Trustee or the Dissemination Agent, as the case may be, to comply with its obligations under this

Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the District, the Trustee or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

**Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent.** Article VIII of the Trust Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Trust Agreement. Neither the Trustee nor the Dissemination Agent shall be responsible for the form or content of any Annual Report or notice of Listed Event. The Dissemination Agent shall receive reasonable compensation for its services provided under this Disclosure Agreement. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Revenue Obligations.

**Section 12. Beneficiaries.** This Disclosure Agreement shall inure solely to the benefit of the District, the Trustee, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Revenue Obligations, and shall create no rights in any other person or entity.

**Section 13. Counterparts.** This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

**IN WITNESS WHEREOF**, the parties hereto have executed this Disclosure Agreement as of the date first above written.

**ORANGE COUNTY SANITATION DISTRICT**

By: \_\_\_\_\_  
Lorenzo Tyner  
Director of Finance and Administrative Services

**DIGITAL ASSURANCE CERTIFICATION LLC,**  
as Dissemination Agent

By: \_\_\_\_\_  
Authorized Representative

Acknowledged and Accepted:

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

By: \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE  
TO FILE ANNUAL REPORT**

Name of Issuer: Orange County Sanitation District

Name of Issue: Orange County Sanitation District  
Wastewater Refunding Revenue Obligations, Series 2011A

Date of Execution and Delivery: October 3, 2011

NOTICE IS HEREBY GIVEN that the Orange County Sanitation District (the "District") has not provided an Annual Report with respect to the above-captioned Revenue Obligations as required by Section 6.09 of the Trust Agreement, dated as of October 1, 2011, by and among Union Bank, N.A., as Trustee, the Orange County Sanitation District Financing Corporation and the District. [The District anticipates that the Annual Report will be filed by \_\_\_\_\_.]

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

ORANGE COUNTY SANITATION DISTRICT

By: \_\_\_\_\_

cc: Trustee  
Dissemination Agent

## APPENDIX E

### BOOK-ENTRY SYSTEM

*The description that follows of the procedures and recordkeeping with respect to beneficial ownership interests in the Revenue Obligations, payment of principal and interest evidenced by the Revenue Obligations to Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the Revenue Obligations, and other Revenue Obligation-related transactions by and between DTC, Participants and Beneficial Owners, is based on information furnished by DTC which the District and the Corporation each believes to be reliable, but the District and the Corporation take no responsibility for the completeness or accuracy thereof.*

#### **The Depository Trust Company – Book-Entry System**

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Revenue Obligations”). The Revenue Obligations will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Revenue Obligations in the aggregate principal amount of such issue, and will be deposited with DTC.

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 and provides asset servicing for over 3.5 million U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of “AA+.” The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com). The information on such website is not incorporated herein by such reference or otherwise.

Purchases of Revenue Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Revenue Obligations on DTC’s records. The ownership interest of each actual purchaser of each Revenue Obligation (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Revenue Obligations are to be accomplished by entries made on

the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Revenue Obligations, except in the event that use of the book-entry system for the Revenue Obligations is discontinued.

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

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

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

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Revenue Obligations unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. 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 Revenue Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Prepayments with respect to the Revenue Obligations will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the District or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, nor its nominee, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of prepayment proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Revenue Obligations at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Revenue Obligations are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Revenue Obligations will be printed and delivered to DTC.

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

### **Discontinuance of DTC Services**

In the event (i) DTC determines not to continue to act as securities depository for the Revenue Obligations, (ii) DTC shall no longer act and give notice to the Trustee of such determination or (iii) the District determines that it is in the best interest of the Beneficial Owners that they be able to obtain Revenue Obligations and delivers a written certificate to the Trustee to that effect, DTC services will be discontinued. If the District determines to replace DTC with another qualified securities depository, the District shall prepare or direct the preparation of a new single, separate, fully registered Revenue Obligation for each of the maturities of the Revenue Obligations, registered in the name of such successor or substitute qualified securities depository or its nominee. If the District fails to identify another qualified securities depository to replace DTC then the Revenue Obligations shall no longer be restricted to being registered in the certificate registration books in the name of Cede & Co., but shall be registered in such names as are requested in a certificate of the District, in accordance with the Trust Agreement.

All Revenue Obligations may be presented for transfer by the Owner thereof, in person or by his attorney duly authorized in writing, at the Principal Office of the Trustee, on the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement, upon surrender of such Certifications for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee. The Trustee may treat the Owner of any Revenue Obligation as the absolute owner of such Revenue Obligation for all purposes, whether or not such Revenue Obligation shall be overdue, and the Trustee shall not be affected by any knowledge or notice to the contrary; and payment of the interest and principal evidenced by such Revenue Obligation shall be made only to such Owner, which payments shall be valid and effectual to satisfy and discharge the liability evidenced by such Revenue Obligation to the extent of the sum or sums so paid.

Whenever any Revenue Obligations shall be surrendered for transfer, the Trustee shall execute and deliver new Revenue Obligations representing the same principal amount in Authorized Denominations. The Trustee shall require the payment of any Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer. Revenue Obligations may be presented for exchange at the Principal Office of the Trustee for a like aggregate principal amount of Revenue Obligations of other Authorized Denominations. The Trustee shall 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. The Trustee shall not be required to transfer or exchange any Revenue Obligation during the period in which the Trustee is selecting Revenue Obligations for prepayment, nor shall the Trustee be required to transfer or exchange any Revenue Obligation or portion thereof selected for prepayment from and after the date of mailing the notice of prepayment thereof.



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## APPENDIX F

### FORM OF APPROVING OPINION OF SPECIAL COUNSEL

*Upon the execution and delivery of the Revenue Obligations, Fulbright & Jaworski L.L.P., Los Angeles, California, Special Counsel to the District, will render its final approving opinion with respect to the Revenue Obligations in substantially the following form:*

[Date of Delivery]

Orange County Sanitation District  
10844 Ellis Avenue  
Fountain Valley, California 92708-7018

\$147,595,000  
Orange County Sanitation District  
Wastewater Refunding Revenue Obligations  
Series 2011A

Ladies and Gentlemen:

We have acted as Special Counsel in connection with the \$147,595,000 aggregate principal amount of Orange County Sanitation District Wastewater Refunding Revenue Obligations, Series 2011A (the "Revenue Obligations") which are certificates of participation that evidence direct, fractional undivided interests of the Owners thereof in the installment payments (the "Installment Payments"), and the interest thereon, to be made by the Orange County Sanitation District (the "District") pursuant to the Installment Purchase Agreement, dated as of October 1, 2011 (the "Installment Purchase Agreement"), by and between the District and the Orange County Sanitation District Financing Corporation (the "Corporation"). Pursuant to the Master Agreement for District Obligations, dated as of August 1, 2000 (the "Master Agreement"), by and between the District and the Corporation, the District has established conditions and terms upon which obligations such as the Installment Payments, and the interest thereon, will be incurred and secured. Installment Payments under the Installment Purchase Agreement are payable solely from Net Revenues as provided in the Installment Purchase Agreement, consisting primarily of all income and revenue received by the District from the operation or ownership of the Wastewater System of the District (the "Wastewater System") remaining after payment of Maintenance and Operation Costs. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to such terms in the Installment Purchase Agreement.

The Revenue Obligations are to be executed and delivered pursuant to a Trust Agreement, dated as of October 1, 2011 (the "Trust Agreement"), by and among the District, the Corporation and Union Bank, N.A., as trustee (the "Trustee"). Proceeds from the sale of the Revenue Obligations will be used to (i) prepay \$89,800,000 in aggregate principal amount of the District's Refunding Certificates of Participation, Series 2000-A and Series 2000-B and \$83,320,000 in aggregate principal amount of the District's Certificates of Participation, Series 2003 (collectively, the "Refunded Certificates") and (ii) pay the costs incurred in connection with the execution and delivery of the Revenue Obligations.

As Special Counsel, we have examined copies certified to us as being true and complete copies of the Master Agreement, the Trust Agreement and the Installment Purchase Agreement and the proceedings of the District in connection with the execution and delivery of the Revenue Obligations. We have also examined such certificates of officers of the District, the Corporation and others as we have considered necessary for the purposes of this opinion.

Based upon the foregoing, we are of the opinion that:

1. The Master Agreement, the Installment Purchase Agreement and the Trust Agreement each has been duly and validly authorized, executed and delivered by the District and, assuming the Master Agreement, the Installment Purchase Agreement and the Trust Agreement each constitutes the legally valid and binding obligation of the other parties thereto, each constitutes the legally valid and binding obligation of the District, enforceable against the District in accordance with its respective terms.

2. The obligation of the District to pay the Installment Payments, and the interest thereon, and other payments required to be made by it under the Installment Purchase Agreement is a special obligation of the District payable, in the manner provided in the Installment Purchase Agreement, solely from Net Revenues and other funds provided for in the Installment Purchase Agreement lawfully available therefor.

3. Assuming due authorization, execution and delivery of the Trust Agreement and the Revenue Obligations by the Trustee, the Revenue Obligations are entitled to the benefits of the Trust Agreement.

4. Under existing statutes, regulations, rulings and court decisions, and, assuming compliance with the covenants mentioned below, the component of each payment designated as interest in the Installment Purchase Agreement (the "Interest Component"), and the allocable portion thereof distributable in respect of any Revenue Obligation (the "Certificate Interest Distribution"), is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 (the "Code") from the gross income of the owners thereof for federal income tax purposes. We are further of the opinion that under existing statutes, regulations, rulings and court decisions, the Revenue Obligations are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, the Interest Component and the Certificate Interest Distributions will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of the Interest Component, and the Certificate Interest Distribution, owned by a corporation may affect the computation of the alternative minimum taxable income of that corporation. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed. We are further of the opinion that the Interest Component allocable to and the Certificate Interest Distributions in respect of a Revenue Obligation, are exempt from personal income taxes of the State of California under present state law.

Pursuant to the Trust Agreement and in the *Tax Certificate Pertaining to Arbitrage and Other Matters under Sections 103 and 141-150 of the Internal Revenue Code of 1986*, to be delivered by the District and the Corporation in connection with the execution and delivery of the Revenue Obligations, the District and the Corporation will each make representations relevant to the determination of, and will make certain covenants regarding or affecting, the exclusion of the Interest Component and the Certificate Interest Distribution from the gross income of the owners thereof for federal income tax purposes. In reaching the opinions described in the immediately

preceding paragraph, we have assumed the accuracy of such representations and the present and future compliance by the District and the Corporation with such covenants.

Except as stated in the preceding two paragraphs, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the Installment Purchase Agreement or the Revenue Obligations. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Installment Purchase Agreement, Revenue Obligations, Interest Component, or Certificate Interest Distributions, if any action is taken with respect to the Installment Purchase Agreement, the Master Agreement, the Trust Agreement, the Revenue Obligations, or the proceeds thereof if, permitted or predicated on the advice or approval of counsel if such advice or approval is given by counsel other than us.

The rights of the owners of the Revenue Obligations and the enforceability of the Revenue Obligations, the Master Agreement, the Trust Agreement and the Installment Purchase Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases. The enforceability of the Revenue Obligations, the Master Agreement, the Trust Agreement and the Installment Purchase Agreement is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in California.

No opinion is expressed herein on the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Revenue Obligations.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully submitted,

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