

NEW ISSUE – BOOK-ENTRY ONLY

RATINGS: S&P: “ “
(See “RATINGS” herein)

In the opinion of The Weist Law Firm, Scotts Valley, California, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants and requirements, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.

\$ _____*

DISCOVERY BAY PUBLIC FINANCING AUTHORITY
(Contra Costa County, California)
SERIES 2012 ENTERPRISE REVENUE BONDS
(Water and Wastewater Financing Projects)

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

This cover page contains certain information for quick reference only. It is not a summary of this issue. Potential investors must read the entire Official Statement to obtain information essential to make an informed investment decision with respect to the purchase of the Bonds.

The above-captioned \$ _____* aggregate principal amount of Series 2012 Enterprise Revenue Bonds (the “Bonds”) are being issued by the Discovery Bay Public Financing Authority (the “Authority”) pursuant to an Indenture of Trust, dated as of August 1, 2012 (the “Indenture”), by and between the Authority and _____, as trustee (the “Trustee”). The Bonds will bear interest at the rate or rates shown on the Maturity Schedule set forth on the inside front cover hereof, payable semiannually on December 1 and June 1 of each year (each an “Interest Payment Date”), commencing December 1, 2012.

The Bonds initially 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 Bonds. Individual purchases of Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. Purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased, but will receive a credit balance in the records of DTC. Principal of and interest on the Bonds are payable directly to DTC by the Trustee. Upon receipt of payments of principal of and interest on the Bonds, DTC is obligated in turn to remit such principal and interest to the DTC Participants (as defined herein) for subsequent disbursement to purchasers of the Bonds, as described herein. See “APPENDIX F – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM.”

The Bonds are special obligations of the Authority payable from the Revenues (defined herein) pledged under the Indenture, consisting primarily of installment payments (the “Water Installment Payments”) to be made by the Town of Discovery Bay, a California community services district (the “District”) under an installment sale agreement, dated as of August 1, 2012, by and between the Authority and the District (the “Water Installment Sale Agreement”), and installment payments (the “Wastewater Installment Payments,” and together with the Water Installment Payments, the “Installment Payments”) to be made by the District under an installment sale agreement, dated as of August 1, 2012, by and between the Authority and the District (the “Wastewater Installment Sale Agreement,” and together with the Water Installment Sale Agreement, the “Installment Sale Agreements”). The Water Installment Payments are secured by a pledge of and lien on the net revenues of the District’s municipal water enterprise (the “Water System”), and the Wastewater Installment Payments are secured by a pledge of and lien on the net revenues of the District’s municipal wastewater enterprise (the “Wastewater System.”).

The Bonds are subject to redemption prior to maturity as described herein. See “THE BONDS – Redemption Provisions” herein.

The Bonds are being issued to (i) finance the acquisition and construction of certain improvements to the Water System, (ii) finance the acquisition and construction of certain improvements to the Wastewater System, (iii) fund capitalized interest on the Bonds, (iv) fund a Reserve Fund (as defined herein) for the Bonds, and (v) pay the costs of issuance incurred in connection with the issuance, sale and delivery of the Bonds. See “FINANCING PLAN” herein.

See “RISK FACTORS” for a discussion of special risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds. For a discussion of some of the risks associated with the purchase of the Bonds, see “RISK FACTORS” and “CONSTITUTIONAL LIMITATIONS ON TAXES, RATES AND CHARGES” herein.

MATURITY SCHEDULE
(See Inside Cover Page)

The Bonds are limited obligations of the Authority and are payable solely from, and are secured by a pledge of, Revenues and certain funds and accounts held under the Indenture. The District’s obligation to pay Installment Payments under each of the Installment Sale Agreements is a special obligation of the District limited solely to the Net Revenues of the Water and Wastewater Systems. No other funds or property of the District are liable for the payment of the Installment Payments or any other amounts payable under the Installment Sale Agreements or the Indenture. The full faith and credit of neither the Authority, the District nor the State of California or any of its political subdivisions is pledged for the payment of the Bonds. The Authority has no taxing power.

The Bonds will be offered when, as and if issued by the Authority and accepted by the Underwriter, subject to approval as to their legality by The Weist Law Firm, Scotts Valley, California, Bond Counsel. Certain legal matters will also be passed upon for the Authority by The Weist Law Firm, as Disclosure Counsel. Certain legal matters will be passed on for the District by its general counsel, and for the Authority by its general counsel. It is anticipated that the Bonds in book-entry form will be available through the facilities of DTC in New York, New York for delivery on or about August __, 2012.

KINSELL, NEWCOMB & DE DIOS, INC. [Logo]

Dated: August __, 2012

*Preliminary, subject to change.

DATES, PRINCIPAL AMOUNTS, INTEREST RATES AND YIELDS

MATURITY SCHEDULE
(Base CUSIP[†] _____)

<u>Maturity</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP[†]</u>
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\$ _____ . . . % Term Bond Due December 1, 20__ – Price __. __ % CUSIP[†] No. _____
\$ _____ . . . % Term Bond Due December 1, 20__ – Price __. __ % CUSIP[†] No. _____

* Priced to optional redemption date of December 1, 20__ at par.

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DISCOVERY BAY PUBLIC FINANCING AUTHORITY
Discovery Bay, California

DISTRICT BOAD / AUTHORITY BOARD

Chris Steele, *President/Chairperson*
Kevin Graves, *Vice-President/Vice Chairperson*
Jim Mattison, *Director /Member*
Mark Simon, *Director / Member*
Ray Tetreault, *Director / Member*

DISTRICT / AUTHORITY STAFF

Richard J. Howard, *General Manager/Executive Director*
Dina Breitstein, *Finance Manager/Treasurer*
Virgil Koehne, *Water and Wastewater Manager*
Dan Schroeder, *District Counsel/Authority Counsel*

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel

The Weist Law Firm
Scotts Valley, California

Trustee

San Francisco, California

Underwriter

Kinsell, Newcomb & De Dios, Inc.
Carlsbad, California

In making an investment decision investors must rely on their own examination of the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, neither the foregoing authorities nor Bond Counsel or Disclosure Counsel have confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

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

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matter of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts. Words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the Authority or the District.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of its responsibilities to investors under the federal securities laws applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information set forth herein has been obtained from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness. The information and expression of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made under the Indenture shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the District since the date hereof.

This Official Statement is submitted in connection with the sale of the Bonds and may not be reproduced or used, in whole or in part, for any other purpose.

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

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

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OFFICIAL STATEMENT

\$ _____ *

DISCOVERY BAY PUBLIC FINANCING AUTHORITY
(Contra Costa County, California)
SERIES 2012 ENTERPRISE REVENUE BONDS
(Water and Wastewater Financing Projects)

This Official Statement is provided to furnish information regarding the issuance by the Discovery Bay Public Financing Authority (the “Authority”) of its \$ _____ aggregate principal amount of Series 2012 Enterprise Revenue Bonds (Water and Wastewater Financing Projects) (the “Bonds”). Further, the following introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. Certain capitalized terms used herein are defined in “APPENDIX A – SUMMARY OF LEGAL DOCUMENTS – Definitions” herein.*

INTRODUCTION

In General

The Bonds are limited obligations of the Authority payable from the Revenues (defined herein) pledged under the Indenture, consisting primarily of (i) water installment payments (the “Water Installment Payments”) to be made by the Town of Discovery Bay, a California community services district (the “District”) under a water installment sale agreement, dated as of August 1, 2012, by and between the Authority and the District (the “Water Installment Sale Agreement”), and (ii) wastewater installment payments (the “Wastewater Installment Payments,” and together with the Water Installment Payments, the “Installment Payments”) to be made by the District under a wastewater installment sale agreement, dated as of August 1, 2012, by and between the Authority and the District (the “Wastewater Installment Sale Agreement,” and together with the Water Installment Sale Agreement, the “Installment Sale Agreements”). The Water Installment Payments are secured by a pledge of and lien on the net revenues of the District’s municipal water enterprise (the “Water System”), and the Wastewater Installment Payments are secured by a pledge of and lien on the net revenues of the District’s municipal wastewater enterprise (the “Wastewater System”).

Authority for Issuance of the Bonds

The Bonds are being issued pursuant to the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of the Act (commencing with Section 6584) (the “Bond Law”), a Resolution adopted by the Board of Directors of the Authority on August 1, 2012 (the “Authority Resolution”), a Resolution adopted by the Board of Directors of the District on August 1, 2012 (the “District Resolution” and together with the Authority Resolution, the “Resolutions”), and an Indenture of Trust (the “Indenture”), dated as August 1, 2012, by and between the Authority and _____, as trustee (the “Trustee”).

*Preliminary, subject to change.

Purpose of the Bonds

The Bonds are being issued to (i) finance the acquisition and construction of certain improvements to the Water System, (ii) finance the acquisition and construction of certain improvements to the Wastewater System, (iii) fund capitalized interest on the Bonds, (iv) fund a Reserve Fund (as defined herein) for the Bonds, and (v) pay the costs of issuance incurred in connection with the issuance, sale and delivery of the Bonds. See “THE FINANCING PLAN” herein.

The Authority

The Discovery Bay Public Financing Authority was created by a Joint Exercise of Powers Agreement, dated as of July 1, 2012 (the “Joint Exercise of Powers Agreement”), by and between the District and the Byron Bethany Irrigation District (the “Irrigation District”) pursuant to the provisions of the Joint Exercise of Powers Act, Chapter 5 of Division 7 of Title 1 of the Government Code of the State (the “Act”). The Authority was created for the primary purpose of facilitating the financing of public capital improvements and facilities for the District and the Irrigation District. See “THE AUTHORITY” herein.

The District

The Town of Discovery Bay is an unincorporated community within the County of Contra Costa (the “County”). The District is governed by a 5-member elected Board of Directors. The District provides municipal water treatment and distribution services as well as wastewater collection, transmission and treatment services. The District also provides parks and landscaping, and recreation services.

The District encompasses an area of approximately 7 square miles and, has a population of approximately 14,000 persons, according to the 2010 United States Census report estimates. The District is located in eastern Contra Costa County in the Central Valley region of California, approximately 55 miles east of San Francisco, 65 miles south of Sacramento, 15 miles east of Antioch and approximately 15 miles north of Livermore. The city of Brentwood is approximately 6 miles northwest along State Highway 4. Temperatures are fairly mild year-round, average highs are between 65 and 75 degrees in the summer, and average lows are between 52 and 65 degrees during the remainder of the year. Average annual rainfall, mostly occurring between December and March, is approximately 10 inches per year. See “APPENDIX D – GENERAL INFORMATION REGARDING THE DISTRICT AND SURROUNDING AREA” herein.

The District’s general fund is not pledged to secure payment of, and the taxing power of the District is not pledged for, the principal of and interest on the Bonds.

The Water Enterprise

The District provides water service to approximately 5,500 customers within its sphere of influence. Water is conveyed through a supply and distribution system that includes five wells and approximately thirty miles of distribution lines (the “Water Distribution System”) to two District owned water treatment plants (the “Water Treatment Facilities”) (together, the Water Distribution System and the Water Treatment Facilities are sometimes referred to interchangeably as either the “Water Enterprise” or the “Water System”). See “THE WATER ENTERPRISE” herein.

The Wastewater Enterprise

The District provides wastewater service to approximately 5,500 customers within its sphere of influence. Wastewater is conveyed through a collection system of sewers and lift stations (the “Wastewater Collection System”) to the District owned wastewater treatment plant and disposal facilities (the “Wastewater Treatment Facilities”) (together, the Wastewater Collection System and the Wastewater Treatment Facilities are sometimes referred to interchangeably as either the “Wastewater Enterprise” or the “Wastewater System”). See “THE WASTEWATER ENTERPRISE” herein.

Description of the Bonds

Payment. Principal of the Bonds will be payable in each of the years and in the amounts set forth on the inside front cover hereof at the principal corporate office of the Trustee. The Bonds will accrue interest from their date of delivery, and interest thereon will be payable semiannually on December 1 and June 1 of each year (each, an “Interest Payment Date”), commencing December 1, 2012, by check mailed by the Trustee on each Interest Payment Date to the person whose name appears in the registration books kept by the Trustee as the registered owner thereof as of the close of business on the fifteenth calendar day of the month immediately preceding an interest payment date (a “Record Date”); provided, however, that payment of interest may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more, payable when due by wire of the Trustee to DTC which will in turn remit such interest, principal and premium, if any, to DTC Participants (as defined herein), which will in turn remit such interest, principal and premium, if any, to Beneficial Owners (as defined herein) of the Bonds. See “APPENDIX F – DTC’S BOOK-ENTRY ONLY SYSTEM” herein.

Redemption. The Bonds are subject to optional, extraordinary and mandatory sinking account redemption prior to their stated maturity dates, as provided herein. See “THE BONDS – Redemption Provisions” herein.

Form of Bonds. The Bonds will be issued in fully registered form, without coupons, in the minimum denominations of \$5,000 or any integral multiple thereof. Any Bond may, in accordance with its terms, be transferred or exchanged, pursuant to the provisions of the Indenture. See “THE BONDS – General.” When delivered, the Bonds will be registered in the name of The Depository Trust Company, New York, New York (“DTC”), or its nominee. DTC will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing the Bonds purchased. See “APPENDIX F – DTC’S BOOK-ENTRY ONLY SYSTEM” herein.

Sources of Payment for the Bonds

In General. The Bonds are special limited obligations of the Authority, payable solely from and secured by a first pledge of the Revenues (defined herein) received by the Authority from the District under (i) the Water Installment Sale Agreement, and (ii) the Wastewater Installment Sale Agreement related to the District’s Water and Wastewater Enterprises, and from certain interest and other income derived from certain funds and accounts held under the Indenture (collectively, the “Revenues,” as more fully described herein). The Installment Payments under the two separate Installment Sale Agreements, along with investment earnings, are calculated to be sufficient to permit the Authority to pay the principal of, and interest on, the Bonds when due.

The obligation of the District to make payments under each of the Water Installment Sale Agreement and the Wastewater Installment Sale Agreement is limited solely to Net Revenues consisting generally of all gross income and revenue from the Water Enterprise, and from the Wastewater Enterprise, respectively, less the maintenance and operations costs of the Water Enterprise and the Wastewater Enterprise, respectively.

Reserve Fund. A Reserve Fund (the “Reserve Fund”) is established with the Trustee pursuant to the Trust Indenture in an amount equal to the Reserve Requirement (as defined in the Indenture). Amounts on deposit in the Reserve Fund will be applied to pay principal of and/or interest on the Bonds in the event amounts on deposit in the Interest Accounts, Principal Accounts or Sinking Accounts, respectively, are insufficient therefor. See “SECURITY FOR THE BONDS – Reserve Fund” herein.

Sources of Payment for the Installment Sale Agreements

In General. Pursuant to each of the Installment Sale Agreements, the District has agreed to pay Installment Payments to the Authority as the purchase price of (i) certain water system facilities pertaining to the District’s Water Enterprise (the “Water Project”), and (ii) certain wastewater system facilities pertaining to the District’s Wastewater Enterprise (the “Wastewater Project,” and together with the Water Project, the “Projects”). See “THE FINANCING PLAN” herein. The aggregate Installment Payments are scheduled to be sufficient, in time and amount, for the Authority to pay principal of and interest on the Bonds when due. The District is obligated to make such payments solely from Net Revenues. See “SECURITY FOR THE BONDS – Pledge of Net Revenues” herein.

Rate Covenant. Under each of the Installment Sale Agreements, the District has covenanted that, to the extent provided by law, it will fix, prescribe and collect rates, fees and charges for the services and facilities provided by each of the respective Utility Enterprises which will at least be sufficient to yield respective Net Revenues, during the next succeeding Fiscal Year, equal to 125% of the total respective Installment Payments for such Fiscal Year. See “SECURITY FOR THE BONDS – Rate Covenant” herein.

Rate Stabilization Funds. Under each of the Installment Sale Agreements, the District has covenanted that it will establish and maintain a rate stabilization fund for each respective Enterprise.

The District may withdraw amounts from time to time held in the Rate Stabilization Fund within 120 days after the end of the applicable Fiscal Year. Amounts so withdrawn shall be included in Revenues for such Fiscal Year and may be applied for any purposes for which Revenues generally are available. See “SECURITY FOR THE BONDS – Rate Stabilization Funds” herein.

Risk Factors

The purchase of the Bonds involves certain risks. For a general discussion of certain special factors and considerations relevant to an investment in the Bonds, in addition to the other matters set forth herein, see “RISK FACTORS” herein. The Bonds are not appropriate investments for investors who are not able to bear the associated risks. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Limited Obligations

The obligations of the District to make the Installment Payments and the Additional Payments from the Net Revenues and to perform and observe the other agreements contained in the Installment Sale Agreements will be absolute and unconditional and will not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the District, the Authority, or the Trustee of any obligation to the District or otherwise or out of indebtedness or liability at any time owing to the District by the Authority or the Trustee.

The Bonds are special, limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Revenues. Neither the full faith and credit of the Authority nor its members (including the District and the Irrigation District) is pledged for the payment of the interest on or principal or redemption price of the Bonds and no tax or other source of funds, other than the Revenues, is pledged to pay the interest on or principal or redemption price of the Bonds. Neither the payment of the interest on or principal or redemption price of the Bonds constitutes a debt, liability or obligation of the Authority or any member of the Authority (including the District and the Irrigation District) for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation.

The District's obligation to pay Water Installment Payments under the Water Installment Sale Agreement is a special obligation of the District limited solely to the Net Revenues of the Water Enterprise. The District's obligation to pay Wastewater Installment Payments under the Wastewater Installment Sale Agreement is a special obligation of the District limited solely to the Net Revenues of the Wastewater Enterprise. No other funds or property of the District are liable for the payment of the Installment Payments or any other amounts payable under the Installment Sale Agreements or the Indenture. The full faith and credit of neither the Authority, the District nor the State of California or any of its political subdivisions is pledged for the payment of the Bonds. The Authority has no taxing power.

Continuing Disclosure

The District has covenanted for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District and the Water and Wastewater Enterprises by not later than nine (9) months following the end of the District's Fiscal Year (which currently would be by March 31 each year based upon the June 30 end of the District's Fiscal Year), commencing with the report for the 2011-12 Fiscal Year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The District has covenanted to prepare and deliver the Annual Report and notices of certain material events to the Municipal Securities Rulemaking Board, via its Electronic Municipal Market Access ("EMMA") system. These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5).

The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in "APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE" herein. See "CONTINUING DISCLOSURE" herein. The District has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events. See "CONTINUING DISCLOSURE" herein.

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “intend,” “expect,” “propose,” “estimate,” “project,” “budget,” “anticipate,” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties, and other factors that may cause the 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. No updates or revisions to these forward-looking statements are expected to be issued if or when the expectations, events, conditions, or circumstances on which such statements are based change. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such forward-looking statements. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF.

Other Matters

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Furthermore, this Official Statement speaks only as of its date, and the information and expressions of opinions contained herein are subject to change without notice. Neither delivery of this Official Statement nor any sale of the Bonds, under any circumstances, shall create any implication that there has been no change in the affairs of the District or the Water Enterprise and Wastewater Enterprise since the date of this Official Statement.

Statements contained in this Official Statement which involve estimates, 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 fact.

The summaries of and references to documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report or instrument. The capitalization of any word not conventionally capitalized or otherwise defined herein indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document. See “APPENDIX A – SUMMARY OF LEGAL DOCUMENTS” herein.

The information set forth herein, other than that provided by the District, has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

Copies of the Indenture and the Installment Sale Agreements are available from the Trustee upon request and payment of duplication costs.

THE BONDS

Authority for Issuance

The Bonds are being issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Bond Law”), and pursuant to the Indenture.

General Provisions

General. The Bonds will initially be issued in book-entry only form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Purchasers of the Bonds will not receive certificates representing their interests therein, which will be held at DTC. See “APPENDIX F – DTC’S BOOK-ENTRY ONLY SYSTEM.”

The Bonds. The Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof and will be dated the date of delivery. Interest on the Bonds will be payable semiannually on December 1 and June 1 of each year (each, an “Interest Payment Date”), commencing December 1, 2012, by check mailed by the Trustee on each Interest Payment Date to the person whose name appears in the registration books kept by the Trustee as the registered owner thereof as of the close of business on the fifteenth calendar day of the month immediately preceding an interest payment date (a “Record Date”); provided, however, that payment of interest may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more. Interest on the Bonds will be calculated based on a 360-day year consisting of twelve 30-day months.

Each Bond will bear interest from the Interest Payment Date next preceding the date of registration thereof, unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or (b) unless it is authenticated on or before November 15, 2012, in which event it will bear interest from the date of delivery; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. The Bonds will mature in the amounts and on the dates, and bear interest at the rates per annum, set forth on the inside front cover of this Official Statement.

Principal of and premium, if any, on the Bonds are payable upon presentation and surrender of the Bonds at the principal office of the Trustee.

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

Transfer of any Bond will not be permitted by the Trustee during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption pursuant to the Indenture.

Whenever any Bond or Bonds will be surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new Bond or Bonds for a like aggregate principal amount and of like maturity. The Trustee will require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

If a Bond is mutilated, lost, stolen or destroyed, the Trustee, at the expense of the Owner of such Bond, will authenticate, subject to the provisions of the Indenture, a new Bond of like tenor and amount. In the case of a lost, stolen or destroyed Bond, the Trustee may require that an indemnity be furnished and payment of an appropriate fee for each new Bond delivered in replacement of such Bond, and the Authority may require payment of the expenses of the Authority, the District and the Trustee incurred in connection therewith.

Redemption Provisions

Optional Redemption. The Bonds maturing on or after December 1, 20__, will be subject to redemption at the option of the Authority, as a whole or in part in integral multiples of \$5,000, by such maturities as are selected by the Authority (or, if the Authority fails to designate such maturities, then pro rata among maturities), and by lot within a maturity, from any source of available funds (including prepayments of Installment Payments made by the District pursuant to the applicable Installment Sale Agreement), on any date on or after December 1, 20__, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption.

Mandatory Redemption. The Bonds maturing on December 1, 20__ (the “20__ Term Bond”) are subject to mandatory redemption from monies in the Sinking Account prior to their stated maturity date, at the principal amount thereof without premium on each December 1, on and after December 1, 20__, in accordance with the terms of the Indenture, in the principal amounts set forth in the following schedule:

Sinking Payment Date (December 1)	Principal Amount to be Redeemed
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Mandatory Redemption. The Bonds maturing on December 1, 20__ (the “20__ Term Bond”) are subject to mandatory redemption from monies in the Sinking Account prior to their stated maturity date, at the principal amount thereof without premium on each December 1, on and after December 1, 20__, in accordance with the terms of the Indenture, in the principal amounts set forth in the following schedule:

Sinking
Payment Date
(December 1)

Principal Amount
to be Redeemed

Extraordinary Mandatory Redemption from Insurance and Condemnation Proceeds. The Bonds are subject to mandatory redemption prior to their respective stated maturities, as a whole, or in part in the order of maturity as directed by the Authority or District in a written request provided to the Trustee and by lot within each maturity, on any date, in integral multiples of \$5,000, from Net Proceeds of casualty insurance or a condemnation award upon the terms and conditions of, and as provided for in, the Indenture and the applicable Installment Sale Agreement, at a prepayment price equal to the principal amount thereof plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

Notice of Redemption. The Trustee shall give notice of redemption to the Owners of the Bonds and to certain security depositories and information services, not less than thirty (30) nor more than sixty (60) days prior to the redemption date. Such notice must specify the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers, the Bond numbers and the maturity or maturities (in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, all as more fully specified in the Indenture, and shall require that such Bonds be surrendered on the redemption date at the office of the Trustee for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date. Failure by any Owner of a Bond to receive such notice or any defect in any notice so mailed will not affect the sufficiency of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest on the date fixed for redemption.

Purchase in Lieu of Redemption. At any time prior to the selection of Bonds for redemption, the Trustee may, upon written direction of either the Authority or the District, apply amounts held for redemption of Bonds to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest payable from the Interest Account) as either the Authority or the District may direct the Trustee, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price of such Bonds; and provided further that in the case of optional redemption, in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts for redemption may be used for payment of such Bonds to be redeemed in order of their due date as set forth in a request of either the Authority or the District.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee will select the Bonds to be redeemed from all Bonds not previously called for redemption, by such maturities as either the Authority or the District will designate (and by lot within any maturity). For purposes of such selection, all Bonds will be deemed to be comprised of separate \$5,000 portions and such portions will be treated as separate Bonds, which may be separately redeemed.

Partial Redemption of Bonds. In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond either the Authority or the District will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of either the Authority or the District, a new Bond or Bonds of the same series and maturity date, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond being redeemed.

Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the principal of and interest (and premium, if any) on the Bonds so called for redemption will have been duly provided, such Bonds so called will cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest will accrue thereon from and after the redemption date. All such Bonds redeemed will be canceled by the Trustee. All moneys held by or on behalf of the Trustee for the payment of principal of or interest or premium on Bonds whether at redemption or maturity, will be held in trust for the account of the Owners thereof and the Trustee will not be required to pay Owners any interest on, or be liable to Owners for any interest earned on, moneys so held.

Right to Rescind Notice of Redemption. The District and Authority have the right to rescind any notice of the optional redemption of Bonds by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an event of default under the Indenture. Neither the District, the Authority nor the Trustee will have any liability to the Owners or any other party related to or arising from such rescission of redemption.

Book-Entry System

The Bonds will be issued as one fully registered bond certificate without coupons for each maturity (unless the Bonds of such maturity bear different interest rates, then one certificate for each interest rate among such maturity) and, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Bonds. Individual purchases may be made in book-entry form only, in integral multiples of \$5,000. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal and interest will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. So long as DTC's book-entry system is in effect with respect to the Bonds, notices to Owners of the Bonds by the Authority or the Trustee will be sent to DTC. Notices and communication by DTC to its participants, and then to the beneficial owners of the Bonds, will be governed by arrangements among them, subject to then effective statutory or regulatory requirements. See "APPENDIX F – DTC'S BOOK-ENTRY ONLY SYSTEM" herein.

In the event (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the Authority determines that the DTC will no longer so act, then the Authority will discontinue the book-entry system with DTC. If the Authority fails to identify another qualified securities depository to replace DTC, then the Bonds so designated will no longer be restricted to being registered in the registration books kept by the Trustee in the name of Cede & Co., but will be registered in whatever name or names persons transferring or exchanging Bonds will designate, in accordance with the provisions of the Indenture.

SECURITY FOR THE BONDS

The general fund of the District is not liable and neither the credit nor the taxing power of the District is pledged for the payment of the principal of and interest on the Bonds. The Owners of the Bonds may not compel the exercise of the taxing power by the District or the forfeiture of its property. The principal of and interest on the Bonds are not a debt of the District, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of their income, receipts, or revenues except the Revenues and other amounts pledged under the Indenture. This section provides summaries of the security for the Bonds and certain provisions of the Indenture. See "APPENDIX A – SUMMARY OF LEGAL DOCUMENTS" for a more complete summary of the Indenture. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

Pledge of Revenues

All Revenues (as defined below) and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established under the Indenture are irrevocably pledged to the payment of the interest and premium, if any, on and principal of the Bonds as provided in the Indenture, and the Revenues may not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Revenues and other moneys there may be applied such sums for such purposes as are permitted under the Indenture.

"Revenues" means (a) all amounts received by the Authority or the Trustee pursuant to or with respect to the Water Installment Sale Agreement and the Wastewater Installment Sale Agreement, including, without limiting the generality of the foregoing, (i) all of the Water Installment Payments payable pursuant to the Water Installment Sale Agreement (including both timely and delinquent payments, any late charges, and whether paid from any source, insurance proceeds and condemnation proceeds deposited in the Insurance and Condemnation Fund and prepayments of Water Installment Payments), and (ii) all of the Wastewater Installment Payments payable pursuant to the Wastewater Installment Sale Agreement (including both timely and delinquent payments, any late charges, and whether paid from any source, insurance proceeds and condemnation proceeds deposited in the Insurance and Condemnation Fund and prepayments of Wastewater Installment Payments), but in each case excluding any respective Water and Wastewater Additional Payments, (b) amounts deposited in the Reserve Fund and Bond Fund, and (c) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture (except the Rebate Account).

Such pledge constitutes a lien on and security interest upon the Revenues and all other moneys on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund) for the payment of the interest on and principal of the Bonds in accordance with their terms and the terms of the Indenture.

In the Indenture, the Authority agrees to transfer in trust, grant a security interest in and assign to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Authority in the Water Installment Sale Agreement and the Wastewater Installment Sale Agreement (except for the right to receive any respective Water or Wastewater Additional Payments (as defined herein) to the extent payable to the Authority and certain rights to indemnification set forth in each of the respective Installment Sale Agreements).

In order to carry out and effectuate the pledge, charge and lien on Revenues provided in the Indenture, the Authority agrees and covenants in the Indenture that all Revenues will be promptly deposited by the Trustee upon receipt thereof in the Bond Fund created under the Indenture, which the Trustee will establish, maintain and hold in trust; except that all moneys received by the Trustee and required under the Indenture or under a respective Installment Sale Agreement to be deposited in the Redemption Fund will be promptly deposited in such Fund. All Revenues will be accounted for through and held in trust in the Bond Fund, and the Authority has no beneficial right or interest in any of the Revenues except only as provided in the Indenture.

Flow of Funds

Not later than the Business Day immediately preceding each Interest Payment Date, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(1) Interest Account. On each Interest Payment Date, the Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest becoming due and payable on such Interest Payment Date on all Outstanding Bonds, the amount of interest becoming due and payable on the mandatory sinking fund payment due on all Outstanding Bonds, if any, and an amount due on the next redemption date on the Bonds to be redeemed (other than pursuant to mandatory sinking fund redemption). No deposit need be made into the Interest Account if the amount contained therein is at least equal to the interest becoming due and payable upon all Outstanding Bonds on such Interest Payment Date. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture). In the event that the amounts on deposit in the Interest Account on any Interest Payment Date are insufficient for any reason to pay the aggregate amount of interest then coming due and payable on the Outstanding Bonds, the Trustee shall apply such amounts to the payment of interest on each of the Outstanding Bonds on a pro rata basis.

(2) Principal Account. On each Interest Payment Date on which the principal of the Bonds is payable, the Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such Interest Payment Date, the amount of principal becoming due and payable on the mandatory sinking fund payment due on all Outstanding Bonds, if any, and an amount due on the next redemption date on the Bonds to be redeemed (other than pursuant to mandatory sinking fund redemption). All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds at the maturity thereof.

(3) Reserve Fund. The Trustee shall deposit in the Reserve Fund an amount, if any, required to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement (but only to the extent that a negative balance therein is properly traced and charged to either the Water Enterprise or the Wastewater Enterprise, as the case may be).

(4) Surplus. As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner described above, any moneys remaining in the Bond Fund may at any time be treated as surplus and applied as provided in the Indenture.

Reserve Fund

In order to further secure the payment of principal of and interest on the Bonds, a portion of Bond proceeds will be deposited into the Reserve Fund in an amount equal to the Reserve Requirement. "Reserve Requirement" is defined in the Indenture to mean, as of any calculation date in a Bond Year, an amount equal to the lesser of (i) ten percent (10%) of the sale proceeds (within the meaning of section 148 of the Code) of the Bonds, (ii) 125% of average annual debt service on the Bonds for that and every succeeding Bond Year, or (iii) Maximum Annual Debt Service.

All amounts in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of (i) paying principal of or interest on the Bonds, including the principal amount of any Term Bonds subject to mandatory Sinking Account redemption, when due and payable to the extent that moneys deposited in the Interest Account, Principal Account or Sinking Account, respectively, are not sufficient for such purpose, and (ii) making the final payments of principal of and interest on the Bonds. On the date on which all Bonds are retired, any moneys then on deposit in the Reserve Fund will be withdrawn by the Trustee and paid to the District.

If at any time the amount on deposit in the Reserve Fund is less than the Reserve Requirement, the District is required to determine which Enterprise caused the shortfall, and then pay from corresponding Water Net Revenues or Wastewater Net Revenues, as the case may be, to the Trustee the amount of such deficiency as provided in the respective Installment Sale Agreement. Any amounts on deposit in the Reserve Fund at any time in excess of the Reserve Requirement will be transferred by the Trustee to the Bond Fund.

The Authority shall have the right at any time to direct the Trustee to release funds from the Reserve Fund, in whole or in part, by tendering to the Trustee: (i) a Qualified Reserve Fund Credit Instrument, and (ii) an opinion of Bond Counsel stating that neither the release of such funds nor the acceptance of such Qualified Reserve Fund Credit Instrument will cause interest on the Bonds to become includable in gross income for purposes of federal income taxation.

Upon the expiration of any Qualified Reserve Fund Credit Instrument, the Authority shall either (i) replace such Qualified Reserve Fund Credit Instrument with a new Qualified Reserve Fund Credit Instrument, or (ii) deposit or cause to be deposited with the Trustee an amount of funds equal to the Reserve Requirement, to be derived from the first available Revenues.

Rate Stabilization Funds

Under each of the Installment Sale Agreements, the District has the right to deposit into each respective Rate Stabilization Fund held by the District from time to time any amount of funds which are legally available therefor; provided that deposits for each Fiscal Year may be made until (but not after) 120 days following the end of such Fiscal Year. For the purpose of computing the amount of Gross Revenues for any Fiscal Year or the amount of Net Revenues for any Fiscal Year, the District may transfer amounts on deposit in the Rate Stabilization Fund into either the Water or Wastewater Fund, as the case may be, for purposes of such computation, such transfers to be made until (but not after) 120 days after the end of such Fiscal Year. In addition, the District City may withdraw amounts on deposit in the Rate Stabilization Fund for any other lawful purpose. Neither Rate Stabilization Fund is pledged to secure payment of the Installment Payments.

Limited Obligation

The Revenues constitute a trust fund for the security and payment of the principal or Redemption Price of and interest on the Bonds. The general fund of the District is not liable and the credit or taxing power of the District is not pledged for the payment of the principal or Redemption Price of and interest on the Bonds.

The Owner of the Bonds may not compel the exercise of the taxing power by the District or the forfeiture of its property. The principal or Redemption Price of and interest on the Bonds are not a debt of the District, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Revenues.

THE WATER INSTALLMENT SALE AGREEMENT

Water Installment Payments

The District's obligation to pay the Water Installment Payments, the Water Additional Payments and any other amounts coming due and payable under the Water Installment Sale Agreement is a special obligation of the District limited solely to Water Net Revenues. Under no circumstances will the District be required, obligated or liable to advance moneys derived from any source of income other than the Water Net Revenues and other sources specifically identified in the Water Installment Sale Agreement for the payment of the Water Installment Payments and the Water Additional Payments, nor will any other funds or property of the District be liable for the payment of the Water Installment Payments and the Water Additional Payments and any other amounts coming due and payable under the Water Installment Sale Agreement.

The obligations of the District to make the Water Installment Payments and the Water Additional Payments from the Water Net Revenues and to perform and observe the other agreements contained in the Water Installment Sale Agreement shall be absolute and unconditional and will not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the District, the Authority or the Trustee of any obligation to the District or otherwise with respect to the Water Enterprise, whether under the Water Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the District by the Authority or the Trustee.

As security for the payment of the Bonds, the Authority has assigned to the Trustee the Authority's rights and remedies under the Water Installment Sale Agreement, including the right to receive the Water Installment Payments.

The obligation of the District to pay the Water Installment Payments is limited to the Water Net Revenues, which are defined in the Water Installment Sale Agreement to be for any period, an amount equal to all of the Water Gross Revenues received during such period minus the amount required to pay all Water Operation and Maintenance Costs becoming payable during such period.

Water Net Revenues

Water Net Revenues is defined in the Water Installment Sale Agreement to mean, for any Fiscal Year or twelve (12) calendar month period, the Water Gross Revenues of the Water Enterprise during such Fiscal Year less the Water Operation and Maintenance Costs during such Fiscal Year.

“Water Enterprise” means, collectively, the entire water collection, storage, treatment, transmission and distribution system now owned or operated by the District, and all other properties, structures or works hereafter acquired and constructed by the District and determined to be a part of the Water Enterprise, including, but not limited to, any and all properties and assets, real and personal, tangible and intangible, of the District, now or hereafter existing, used or pertaining to the collection, storage, treatment, transmission and distribution system, including all contractual rights to water supply and transmission, as well as all pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, storage, treatment, transmission and distribution of water, and any necessary lands, rights of way and other real or personal property useful in connection therewith, and all additions, extensions, expansions, improvements and betterments thereto and equipments thereof.

“Water Gross Revenues” means for any Fiscal Year or other period, all gross income and revenue received by the District from the ownership and operation of the Water Enterprise, including, without limiting the generality of the foregoing, (a) all rates, fees and charges received for, and all other income and receipts derived by the District from the operation of the Water Enterprise or arising from the Water Enterprise determined in accordance with Generally Accepted Accounting Principles, including all rates, fees and charges received by the District for the Water Enterprise service and the other services of the Water Enterprise, (b) all proceeds of insurance (if any) covering business interruptions loss relating to the Water Enterprise, (c) all Payment Agreement Receipts (d) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other monies to the extent that the use of such earnings and income is limited by or pursuant to law to the Water Enterprise, including all income from the investment of amounts on deposit in the Water Utility Fund, and the Water Rate Stabilization Fund, (e) the proceeds derived by the District directly or indirectly from the sale, lease or other disposition of a part of the Water Enterprise, and (f) all other monies howsoever derived by the District from the operation of the Water Enterprise or arising from the Water Enterprise, including major facility charges; provided, that the term “Gross Revenues” shall not include contributions in aid of construction or refundable customers' deposits or any other deposits subject to refund until such deposits have become the property of the District. Notwithstanding the foregoing, there shall be deducted from Gross Revenues any amounts transferred into the Water Rate Stabilization Fund as contemplated by the Water Installment Sale Agreement, and there shall be added to Gross Revenues any amounts transferred out of the Water Rate Stabilization Fund as contemplated by the Water Installment Sale Agreement.

“Water Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid or incurred by the District for maintaining and operating the Water Enterprise, determined in accordance with Generally Accepted Accounting Principles, including but not limited to (a) costs of acquisition of water, including all associated treatment and delivery costs, to be used by the Water Enterprise, (b) costs of electricity and other forms of energy supplied to the Water Enterprise, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water Enterprise in good repair and working order, (d) the reasonable administrative costs of the District attributable to the operation and maintenance of the Water Enterprise, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and (e) all other reasonable and necessary costs of the District or charges required to be paid by it to comply with the terms hereof or of any resolution authorizing the issuance of any Water Parity Obligations or of such Water Parity Obligations, such as compensation, reimbursement and indemnification of the Trustee for any such Water Parity Obligations and fees and expenses of Independent Certified Public Accountants and independent engineers, but in all cases excluding (i) debt service payable on obligations incurred by the District with respect to the Water Enterprise, including but not limited to the Water Installment Payments and any Water Obligations, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

Water Utility Fund

The District has heretofore established a Utility (or sometimes, “Enterprise”) Fund into which the District deposits and will continue to deposit all Water Gross Revenues (the “Water Utility Fund”), which the District has covenanted to maintain throughout the Term of the Water Installment Sale Agreement.

In the Water Installment Sale Agreement, all of the Water Net Revenues are irrevocably pledged, charged and assigned to the punctual payment of the Water Installment Payments and any other Water Parity Obligations, and except as otherwise provided therein, the Water Net Revenues will not be used for any other purpose so long as any of the Water Installment Payments remain unpaid.

All of the Water Gross Revenues will be deposited by the District immediately upon receipt in the Water Utility Fund. The District covenants and agrees that all Water Net Revenues will be held by the District in the Utility Fund in trust for the benefit of the Trustee (as assignee of the rights of the Authority) and the Bond Owners, and for the benefit of the owners of any Water Parity Obligations. On or before each Water Installment Payment Date, the District will withdraw from the Water Utility Fund and transfer to the Trustee, for deposit in the Bond Fund, an amount of Water Net Revenues which, together with the balance then on deposit (but only to the extent that such balance is credited to the Water Enterprise) in the Bond Fund, including all sub accounts, but excluding the Reserve Fund (other than amounts resulting from the prepayment of the Water Installment Payments pursuant to the Water Installment Sale Agreement and other than amounts required for payment of principal of or interest on any Bonds which have matured or been called for redemption but which have not been presented for payment), is equal to the aggregate amount of each Water Installment Payment coming due and payable on the next succeeding Interest Payment Date.

In addition, the District shall withdraw from the Water Utility Fund such amounts at such times as shall be required to: (i) pay all Water Operation and Maintenance Costs as they come due and payable; (ii) pay the principal of and interest on any Water Parity Obligations and otherwise comply with the provisions

of the instruments authorizing the issuance of any Water Parity Obligations; (iii) pay on or before the next Interest Payment Date to the Trustee the amount of any deficiency in the Reserve Fund (but only to the extent that a negative balance therein is properly traced and charged to the Water Enterprise), including any amount required as a result of the expiration of a Qualified Reserve Fund Credit Instrument; and (iv) pay all other amounts when and as due and payable under the Water Installment Sale Agreement.

In addition to the Water Installment Payments, the District shall pay when due Water Additional Payments, which generally consist of all costs and expenses incurred by the Authority to comply with the provisions of the Indenture, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund) and amounts payable to the federal government pursuant to the Indenture, and shall pay costs and fees of the Trustee, as described in the Indenture.

Rate Covenants

Covenant Regarding Water Gross Revenues. The District shall, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the services and commodities furnished by the Water Enterprise during each Fiscal Year, which (together with other funds transferred from the Water Rate Stabilization Fund or other funds which are lawfully available to the District for payment of any of the following amounts during such Fiscal Year) are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Water Gross Revenues which are sufficient to pay the following amounts in the following order of priority:

(i) All Water Operation and Maintenance Costs estimated by the District to become due and payable in such Fiscal Year;

(ii) All Water Installment Payments, and all other Water Parity Obligations and payment of amounts owed pursuant to the Indenture or a Supplemental Water Installment Sale Agreement, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(iii) All amounts, if any, required to restore the balance in the Reserve Fund to the full amount of the Reserve Requirement (but only to the extent that a negative balance therein is properly traced and charged to the Water Enterprise), or with respect to Water Parity Obligations, to replenish Reserve Funds therefore.

(iv) All Water Additional Payments and payment of amounts owed pursuant to any Supplemental Water Installment Sale Agreements that are Water Subordinate Obligations.

(v) All Water Gross Revenues remaining after paying all of the sums set forth in (i) through (iv) above may be withdrawn from the Water Utility Fund for expenditure for any lawful purpose of the District, including (i) the payment of Water Additional Payments, (ii) the payment of Water Termination Payments (iii) the payment of any unsecured obligations, (iv) the acquisition and construction of extensions and betterments to the Water Enterprise, (v) the prepayment of any obligations of the District relating to the Water Enterprise, or (vi) any other lawful purposes of the District, including, but not limited to, deposits to the Water Rate Stabilization Fund in accordance with Section 4.7(c) of the Water Installment Sale Agreement.

Covenant Regarding Water Net Revenues. In addition to the covenant regarding Gross Revenues, the District shall, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the services and commodities furnished by the Water Enterprise during each Fiscal Year which are reasonably fair and nondiscriminatory and which are sufficient to yield Adjusted Annual Water Net Revenues (as defined below) for such Fiscal Year equal to at least the Water Coverage Requirement (as defined below) 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 rates, fees and charges then in effect unless the Adjusted Annual Water Net Revenues from such reduced rates, fees and charges are estimated to be sufficient to meet the requirements of this section.

“Adjusted Annual Water Net Revenues” means, for any Fiscal Year or twelve (12) calendar month period, the Adjusted Annual Water Gross Revenues (as defined below) during such Fiscal Year or twelve (12) calendar month period minus the Water Operation and Maintenance Costs during such Fiscal Year or twelve (12) calendar month period.

“Adjusted Annual Water Gross Revenues” means, for any Fiscal Year or twelve (12) calendar month period, the Water Gross Revenues during such Fiscal Year or twelve (12) calendar month period plus the deposits in the Water Utility Fund and/or the Bond Fund from the Water Rate Stabilization Fund (as defined below) during or allocable to such Fiscal Year or twelve (12) calendar month period minus the deposits in the Water Rate Stabilization Fund from the Water Utility Fund and/or the Bond Fund during or allocable to such Fiscal Year or twelve (12) calendar month period.

“Water Rate Stabilization Fund” means the separate fund to be known as the “Water Rate Stabilization Fund,” established pursuant to the Water Installment Sale Agreement, which is held, replenished and maintained by the District. The District may at any time withdraw from the Water Rate Stabilization Fund any money therein for deposit in the Water Utility Fund or Bond Fund; provided that no deposit of Water Net Revenues shall be made into the Water Rate Stabilization Fund to the extent that such deposit would prevent the District from meeting the Water Coverage Requirement in any Fiscal Year or twelve (12) calendar month period.

“Water Coverage Requirement” means, for any Fiscal Year or twelve (12) calendar month period: (1) an amount of Adjusted Annual Water Net Revenues equal in each case to at least (i) one hundred twenty-five percent (125%) of the Water Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, (ii) one hundred five percent (105%) of the sum of the Water Annual Debt Service plus the Water Subordinate Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, and (iii) one hundred percent (100%) of all obligations of the District which are charges, liens or encumbrances upon or payable from the Water Utility Fund in such Fiscal Year or twelve (12) calendar month period; and (2) an amount of Water Net Revenues equal to at least one hundred percent (100%) of all obligations of the District which are charges, liens or encumbrances upon or payable from the Water Utility Fund in such Fiscal Year or twelve (12) calendar month period (including all amounts owed to any issuer of a Financial Guaranty then in effect in a reserve fund or a Reserve Fund under the terms of such Financial Guaranty); provided, that for purposes of determining compliance with the Water Coverage Requirement, the provisions set forth in the Water Installment Sale Agreement regarding variable rate obligation adjustments shall apply.

Limited Unconditional Obligation

The District's obligation to pay the Water Installment Payments, the Water Additional Payments and any other amounts coming due and payable under the Water Installment Payment Agreement are a special limited obligation of the District limited solely to the Water Net Revenues.

Under no circumstances shall the District be obligated, liable or required to advance moneys derived from any source of income other than the Water Net Revenues and other sources specifically identified for the payment of the Water Installment Payments and the Water Additional Payments, nor shall any other funds or property of the District be liable for the payment of the Water Installment Payments and the Water Additional Payments and any other amounts coming due and payable under the Water Installment Sale Agreement.

Subject to the preceding paragraph, the obligations of the District to make the Water Installment Payments and the Water Additional Payments from the Water Net Revenues and to perform and observe the other agreements contained in the Water Installment Sale Agreement shall be absolute and unconditional and shall not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the District, the Authority or the Trustee of any obligation to the District or otherwise with respect to the Water Enterprise, whether under the Water Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the District by the Authority or the Trustee.

Until such time as all of the Water Installment Payments, all of the Water Additional Payments and all other amounts coming due and payable under the Water Installment Sale Agreement have been fully paid or prepaid, the District has agreed that it (a) will not suspend or discontinue payment of any Water Installment Payments, Water Additional Payments or such other amounts, (b) will perform and observe all other agreements contained in the Water Installment Sale Agreement, and (c) will not terminate the Term of the Water Installment Sale Agreement for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Water Enterprise, sale of the Water Enterprise, the taking by eminent domain of title to or temporary use of any component of the Water Enterprise, commercial frustration of purpose, any change in the tax or law other laws of the United States of America or the State or any political subdivision of either thereof or any failure of the Authority or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture or the Water Installment Sale Agreement.

Issuance of Additional Debt

In addition to the Water Installment Sale Agreement, the District may from time to time to issue or incur additional Water Parity Obligations, upon such terms and conditions as the District shall deem advisable, but only upon compliance with the following conditions which are conditions precedent to the issuance of Parity Obligations:

(a) There shall be on file with the District either:

(1) A Certificate of the District demonstrating that, during the last audited Fiscal Year or any twelve (12) calendar month period during the immediately preceding eighteen (18) calendar month period, the Adjusted Annual Water Net Revenues were at least equal to the Water Coverage

Requirement for all outstanding Water Parity Obligations plus the Water Parity Obligation proposed to be executed; provided, that for the purpose of providing this Certificate, the District may adjust the foregoing Adjusted Annual Water Net Revenues to reflect Additional Revenues; or

(2) An Engineer's Report that the estimated Adjusted Annual Water Net Revenues for each of the five (5) Fiscal Years next following the earlier of (i) the end of the period during which interest on the Water Parity Obligation proposed to be executed is to be capitalized or, if no interest is capitalized, the Fiscal Year in which the Water Parity Obligation proposed to be executed is executed, or (ii) the date on which substantially all projects financed with the Water Parity Obligation proposed to be executed plus all projects financed with all existing Water Parity Obligations are expected to commence operations, will be at least equal to the Water Coverage Requirement for such period; provided, that for the purpose of providing this Engineer's Report, the Independent Engineer may adjust the foregoing estimated Adjusted Annual Water Net Revenues to reflect: (a) An allowance for Water Net Revenues that are estimated to be derived from any increase in the rates, fees and charges for water service in effect and being charged or from any increase in the rates, fees and charges for water service that are expected to be charged; and (b) An allowance for Water Net Revenues that are estimated to be derived from customers of the Water Enterprise anticipated to be served by the additions, betterments or improvements to the Water Enterprise to be financed by the Water Parity Obligation proposed to be executed;

(b) A Certificate of the District that the project to be acquired and constructed with the proceeds of such Water Parity Obligation is technically feasible and the estimated cost of the acquisition and construction thereof is reasonable, and (after giving effect to the completion of all uncompleted projects) the rates, fees and charges estimated to be fixed and prescribed for the water service for each Fiscal Year from the Fiscal Year in which such Water Parity Obligation is executed to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted project are economically feasible and reasonably considered necessary based on projected operations for such period;

(c) At the time of such execution of Water Parity Obligations, no Event of Default shall have occurred and be continuing; and

(d) Upon the issuance of such Water Parity Obligations a Reserve Fund shall be established for such Water Parity Obligations in an amount at least equal to is a sum at least equal to the Reserve Requirement of such Water Parity Obligations.

Nothing in the Water Installment Sale Agreement prohibits or impairs the authority of the District to issue bonds or other obligations secured by a lien on Water Net Revenues that is subordinate to the lien established under the Water Installment Sale Agreement, upon such terms and in such principal amounts as the District may determine.

Insurance; Net Proceeds

The District will procure and maintain such insurance relating to the Water Enterprise (but only if and to the extent available at reasonable cost from reputable insurers) a standard comprehensive general insurance policy or policies in protection of the Authority, the District, and their respective members, officers, agents and employees. In addition, the District will procure and maintain, or cause to be procured and maintained (but only in the event and to the extent available from reputable insurers at reasonable cost)

casualty insurance against loss or damage to any improvements constituting any part of the Water Enterprise, covering such hazards as are customarily covered with respect to works and property of like character.

Such insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the District, and may be maintained in whole or in part in the form of self-insurance by the District, subject to the provisions of the Water Installment Sale Agreement, or in the form of the participation by the District in a joint powers agency or other program providing pooled insurance.

All amounts collected from insurance against accident to or destruction of any portion of the Water Enterprise shall be Water Gross Revenues and shall be used to repair, rebuild or replace such damaged or destroyed portion of the Water Enterprise or otherwise as permitted by the Water Installment Sale Agreement.

THE WASTEWATER INSTALLMENT SALE AGREEMENT

Wastewater Installment Payments

The District's obligation to pay the Wastewater Installment Payments, the Wastewater Additional Payments and any other amounts coming due and payable under the Wastewater Installment Sale Agreement is a special obligation of the District limited solely to Wastewater Net Revenues. Under no circumstances will the District be required, obligated or liable to advance moneys derived from any source of income other than the Wastewater Net Revenues and other sources specifically identified in the Wastewater Installment Sale Agreement for the payment of the Wastewater Installment Payments and the Wastewater Additional Payments, nor will any other funds or property of the District be liable for the payment of the Wastewater Installment Payments and the Wastewater Additional Payments and any other amounts coming due and payable under the Wastewater Installment Sale Agreement.

The obligations of the District to make the Wastewater Installment Payments and the Wastewater Additional Payments from the Wastewater Net Revenues and to perform and observe the other agreements contained in the Wastewater Installment Sale Agreement shall be absolute and unconditional and will not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the District, the Authority or the Trustee of any obligation to the District or otherwise with respect to the Wastewater Enterprise, whether under the Wastewater Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the District by the Authority or the Trustee.

As security for the payment of the Bonds, the Authority has assigned to the Trustee the Authority's rights and remedies under the Wastewater Installment Sale Agreement, including the right to receive the Wastewater Installment Payments.

The obligation of the District to pay the Wastewater Installment Payments is limited to the Wastewater Net Revenues, which are defined in the Wastewater Installment Sale Agreement to be for any period, an amount equal to all of the Wastewater Gross Revenues received during such period minus the amount required to pay all Wastewater Operation and Maintenance Costs becoming payable during such period.

Wastewater Net Revenues

Wastewater Net Revenues is defined in the Wastewater Installment Sale Agreement to mean, for any Fiscal Year or twelve (12) calendar month period, the Wastewater Gross Revenues of the Wastewater Enterprise during such Fiscal Year less the Wastewater Operation and Maintenance Costs during such Fiscal Year.

“Wastewater Enterprise” means, collectively, the entire wastewater collection, treatment and disposal system owned or operated by the District, including, but not limited to, any and all properties and assets, real and personal, tangible and intangible, of the District, now or hereafter existing, used or pertaining to the disposal or reuse of wastewater, including sewage treatment plants, intercepting and collecting wastewaters, outfall, force mains, pumping stations, ejector stations, pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, treatment, purification or disposal of sewage, and any necessary lands, rights of way and other real or personal property useful in connection therewith, and all additions, extensions, expansions, improvements and betterments thereto and equipments thereof.

“Wastewater Gross Revenues” means for any Fiscal Year or other period, all gross income and revenue received by the District from the ownership and operation of the Wastewater Enterprise, including, without limiting the generality of the foregoing, (a) all rates, fees and charges received for, and all other income and receipts derived by the District from the operation of the Wastewater Enterprise or arising from the Wastewater Enterprise determined in accordance with generally accepted accounting principles, including all rates, fees and charges received by the District for the Wastewater Enterprise service and the other services of the Wastewater Enterprise, (b) all proceeds of insurance (if any) covering business interruptions loss relating to the Wastewater Enterprise, (c) all Payment Agreement Receipts (d) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other monies to the extent that the use of such earnings and income is limited by or pursuant to law to the Wastewater Enterprise, including all income from the investment of amounts on deposit in the Wastewater Utility Fund, and the Wastewater Rate Stabilization Fund, (e) the proceeds derived by the District directly or indirectly from the sale, lease or other disposition of a part of the Wastewater Enterprise, and (f) all other monies howsoever derived by the District from the operation of the Wastewater Enterprise or arising from the Wastewater Enterprise, including major facility charges; provided, that the term “Gross Revenues” shall not include contributions in aid of construction or refundable customers’ deposits or any other deposits subject to refund until such deposits have become the property of the District. Notwithstanding the foregoing, there shall be deducted from Gross Revenues any amounts transferred into the Wastewater Rate Stabilization Fund as contemplated by the Wastewater Installment Sale Agreement, and there shall be added to Gross Revenues any amounts transferred out of the Wastewater Rate Stabilization Fund as contemplated by the Wastewater Installment Sale Agreement.

“Wastewater Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid or incurred by the District for maintaining and operating the Wastewater Enterprise, determined in accordance with Generally Accepted Accounting Principles, including but not limited to (a) costs of acquisition of water, including all associated treatment and disposal costs, to be used by the Wastewater Enterprise, (b) costs of electricity and other forms of energy supplied to the Wastewater Enterprise, (c) the reasonable expenses of management and repair and other costs and expenses necessary to

maintain and preserve the Wastewater Enterprise in good repair and working order, (d) the reasonable administrative costs of the District attributable to the operation and maintenance of the Wastewater Enterprise, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and (e) all other reasonable and necessary costs of the District or charges required to be paid by it to comply with the terms hereof or of any resolution authorizing the issuance of any Wastewater Parity Obligations or of such Wastewater Parity Obligations, such as compensation, reimbursement and indemnification of the trustee for any such Wastewater Parity Obligations and fees and expenses of Independent Certified Public Accountants and independent engineers, but in all cases excluding (i) debt service payable on obligations incurred by the District with respect to the Wastewater Enterprise, including but not limited to the Wastewater Installment Payments and any Wastewater Obligations, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

Wastewater Utility Fund

The District has heretofore established a Utility (or sometimes, “Enterprise”) Fund into which the District deposits and will continue to deposit all Wastewater Gross Revenues (the “Wastewater Utility Fund”), which the District has covenanted to maintain throughout the Term of the Wastewater Installment Sale Agreement.

In the Wastewater Installment Sale Agreement, all of the Wastewater Net Revenues are irrevocably pledged, charged and assigned to the punctual payment of the Wastewater Installment Payments and any other Parity Obligations, and except as otherwise provided therein, the Wastewater Net Revenues will not be used for any other purpose so long as any of the Wastewater Installment Payments remain unpaid.

All of the Wastewater Gross Revenues will be deposited by the District immediately upon receipt in the Wastewater Utility Fund. The District covenants and agrees that all Wastewater Net Revenues will be held by the District in the Wastewater Utility Fund in trust for the benefit of the Trustee (as assignee of the rights of the Authority) and the Bond Owners, and for the benefit of the owners of any Wastewater Parity Obligations. On or before each Wastewater Installment Payment Date, the District will withdraw from the Wastewater Utility Fund and transfer to the Trustee, for deposit in the Bond Fund, an amount of Wastewater Net Revenues which, together with the balance then on deposit (but only to the extent that such balance is credited to the Wastewater Enterprise) in the Bond Fund, including all sub accounts, but excluding the Reserve Fund (other than amounts resulting from the prepayment of the Wastewater Installment Payments pursuant to the Wastewater Installment Sale Agreement and other than amounts required for payment of principal of or interest on any Bonds which have matured or been called for redemption but which have not been presented for payment), is equal to the aggregate amount of each Wastewater Installment Payment coming due and payable on the next succeeding Interest Payment Date.

In addition, the District shall withdraw from the Wastewater Utility Fund such amounts at such times as shall be required to: (i) pay all Wastewater Operation and Maintenance Costs as they come due and payable; (ii) pay the principal of and interest on any Wastewater Parity Obligations and otherwise comply with the provisions of the instruments authorizing the issuance of any Wastewater Parity Obligations; (iii) pay on or before the next Interest Payment Date to the Trustee the amount of any deficiency in the Reserve Fund (but only to the extent that a negative balance therein is properly traced and charged to the Wastewater

Enterprise), including any amount required as a result of the expiration of a Qualified Reserve Fund Credit Instrument; and (iv) pay all other amounts when and as due and payable under the Wastewater Installment Sale Agreement.

In addition to the Wastewater Installment Payments, the District shall pay when due Wastewater Additional Payments, which generally consist of all costs and expenses incurred by the Authority to comply with the provisions of the Indenture, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund) and amounts payable to the federal government pursuant to the Indenture, and shall pay costs and fees of the Trustee, as described in the Indenture.

Rate Covenants

Covenant Regarding Wastewater Gross Revenues. The District shall, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the services and commodities furnished by the Wastewater Enterprise during each Fiscal Year, which (together with other funds transferred from the Wastewater Rate Stabilization Fund or other funds which are lawfully available to the District for payment of any of the following amounts during such Fiscal Year) are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Wastewater Gross Revenues which are sufficient to pay the following amounts in the following order of priority:

(i) All Wastewater Operation and Maintenance Costs estimated by the District to become due and payable in such Fiscal Year;

(ii) All Wastewater Installment Payments, and all other Wastewater Parity Obligations and payment of amounts owed pursuant to the Indenture or a Supplemental Wastewater Installment sale Agreement, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(iii) All amounts, if any, required to restore the balance in the Reserve Fund to the full amount of the Reserve Requirement (but only to the extent that a negative balance therein is properly traced and charged to the Wastewater Enterprise), or with respect to Wastewater Parity Obligations, to replenish Reserve Funds therefore.

(iv) All Wastewater Additional Payments and Supplemental Wastewater Installment Sale Agreements that are Wastewater Subordinate Obligations.

(v) All Wastewater Gross Revenues remaining after paying all of the sums set forth in (i) through (iv) above may be withdrawn from the Wastewater Utility Fund for expenditure for any lawful purpose of the District, including (i) the payment of Wastewater Additional Payments, (ii) the payment of Wastewater Termination Payments (iii) the payment of any unsecured obligations, (iv) the acquisition and construction of extensions and betterments to the Wastewater Enterprise, (v) the prepayment of any obligations of the District relating to the Wastewater Enterprise, or (vi) any other lawful purposes of the District, including, but not limited to, deposits to the Wastewater Rate Stabilization Fund in accordance with Section 4.7(c) of the Wastewater Installment Sale Agreement.

Covenant Regarding Wastewater Net Revenues. In addition to the covenant regarding Wastewater Gross Revenues, the District shall, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the services and commodities furnished by the Wastewater Enterprise during each Fiscal Year which are reasonably fair and nondiscriminatory and which are sufficient to yield Adjusted Annual Wastewater Net Revenues (as defined below) for such Fiscal Year equal to at least the Wastewater Coverage Requirement (as defined below) 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 rates, fees and charges then in effect unless the Adjusted Annual Wastewater Net Revenues from such reduced rates, fees and charges are estimated to be sufficient to meet the requirements of this section.

“Adjusted Annual Wastewater Net Revenues” means, for any Fiscal Year or twelve (12) calendar month period, the Adjusted Annual Wastewater Gross Revenues (as defined below) during such Fiscal Year or twelve (12) calendar month period minus the Wastewater Operation and Maintenance Costs during such Fiscal Year or twelve (12) calendar month period.

“Adjusted Annual Wastewater Gross Revenues” means, for any Fiscal Year or twelve (12) calendar month period, the Wastewater Gross Revenues during such Fiscal Year or twelve (12) calendar month period plus the deposits in the Wastewater Utility Fund and/or the Bond Fund from the Wastewater Rate Stabilization Fund (as defined below) during or allocable to such Fiscal Year or twelve (12) calendar month period minus the deposits in the Wastewater Rate Stabilization Fund from the Wastewater Utility Fund and/or the Bond Fund during or allocable to such Fiscal Year or twelve (12) calendar month period.

“Wastewater Rate Stabilization Fund” means the separate fund to be known as the “Wastewater Rate Stabilization Fund,” which is held, replenished and maintained by the District. The District may at any time withdraw from the Wastewater Rate Stabilization Fund any money therein for deposit in the Wastewater Utility Fund or Bond Fund; provided that no deposit of Wastewater Net Revenues shall be made into the Wastewater Rate Stabilization Fund to the extent that such deposit would prevent the District from meeting the Wastewater Coverage Requirement in any Fiscal Year or twelve (12) calendar month period.

“Wastewater Coverage Requirement” means, for any Fiscal Year or twelve (12) calendar month period: (1) an amount of Adjusted Annual Wastewater Net Revenues equal in each case to at least (i) one hundred twenty-five percent (125%) of the Wastewater Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, (ii) one hundred five percent (105%) of the sum of the Wastewater Annual Debt Service plus the Wastewater Subordinate Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, and (iii) one hundred percent (100%) of all obligations of the District which are charges, liens or encumbrances upon or payable from the Wastewater Utility Fund in such Fiscal Year or twelve (12) calendar month period; and (2) an amount of Wastewater Net Revenues equal to at least one hundred percent (100%) of all obligations of the District which are charges, liens or encumbrances upon or payable from the Wastewater Utility Fund in such Fiscal Year or twelve (12) calendar month period (including all amounts owed to any issuer of a Financial Guaranty then in effect in a reserve fund or a Reserve Fund under the terms of such Financial Guaranty); provided, that for purposes of determining compliance with the Wastewater Coverage Requirement, the provisions set forth in the Wastewater Installment Sale Agreement regarding variable rate obligation adjustments shall apply.

Limited Unconditional Obligation

The District's obligation to pay the Wastewater Installment Payments, the Wastewater Additional Payments and any other amounts coming due and payable under the Wastewater Installment Payment Agreement are a special obligation of the District limited solely to the Wastewater Net Revenues.

Under no circumstances shall the District be obligated, liable or required to advance moneys derived from any source of income other than the Wastewater Net Revenues and other sources specifically identified for the payment of the Wastewater Installment Payments and the Wastewater Additional Payments, nor shall any other funds or property of the District be liable for the payment of the Wastewater Installment Payments and the Wastewater Additional Payments and any other amounts coming due and payable under the Wastewater Installment Sale Agreement.

Subject to the preceding paragraph, the obligations of the District to make the Wastewater Installment Payments and the Wastewater Additional Payments from the Wastewater Net Revenues and to perform and observe the other agreements contained in the Wastewater Installment Sale Agreement shall be absolute and unconditional and shall not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the District, the Authority or the Trustee of any obligation to the District or otherwise with respect to the Wastewater Enterprise, whether under the Wastewater Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the District by the Authority or the Trustee.

Until such time as all of the Wastewater Installment Payments, all of the Wastewater Additional Payments and all other amounts coming due and payable under the Wastewater Installment Sale Agreement have been fully paid or prepaid, the District has agreed that it (a) will not suspend or discontinue payment of any Wastewater Installment Payments, Wastewater Additional Payments or such other amounts, (b) will perform and observe all other agreements contained in the Wastewater Installment Sale Agreement, and (c) will not terminate the Term of the Wastewater Installment Sale Agreement for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Wastewater Enterprise, sale of the Wastewater Enterprise, the taking by eminent domain of title to or temporary use of any component of the Wastewater Enterprise, commercial frustration of purpose, any change in the tax or law other laws of the United States of America or the State or any political subdivision of either thereof or any failure of the Authority or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture or the Wastewater Installment Sale Agreement.

Issuance of Additional Debt

In addition to the Wastewater Installment Sale Agreement, the District may from time to time to issue or incur additional Parity Obligations, upon such terms and conditions as the District shall deem advisable, but only upon compliance with the following conditions which are conditions precedent to the issuance of Parity Obligations:

- (a) There shall be on file with the District either:

(1) A Certificate of the District demonstrating that, during the last audited Fiscal Year or any twelve (12) calendar month period during the immediately preceding eighteen (18) calendar month period, the Adjusted Annual Wastewater Net Revenues were at least equal to the Wastewater Coverage Requirement for all outstanding Wastewater Parity Obligations plus the Wastewater Parity Obligation proposed to be executed; provided, that for the purpose of providing this Certificate, the District may adjust the foregoing Adjusted Annual Wastewater Net Revenues to reflect Additional Revenues; or

(2) An Engineer's Report that the estimated Adjusted Annual Wastewater Net Revenues for each of the five (5) Fiscal Years next following the earlier of (i) the end of the period during which interest on the Wastewater Parity Obligation proposed to be executed is to be capitalized or, if no interest is capitalized, the Fiscal Year in which the Wastewater Parity Obligation proposed to be executed is executed, or (ii) the date on which substantially all projects financed with the Wastewater Parity Obligation proposed to be executed plus all projects financed with all existing Wastewater Parity Obligations are expected to commence operations, will be at least equal to the Wastewater Coverage Requirement for such period; provided, that for the purpose of providing this Engineer's Report, the Independent Engineer may adjust the foregoing estimated Adjusted Annual Wastewater Net Revenues to reflect: (a) An allowance for Wastewater Net Revenues that are estimated to be derived from any increase in the rates, fees and charges for natural gas service in effect and being charged or from any increase in the rates, fees and charges for natural gas service that are expected to be charged; and (b) An allowance for Wastewater Net Revenues that are estimated to be derived from customers of the Wastewater Enterprise anticipated to be served by the additions, betterments or improvements to the Wastewater Enterprise to be financed by the Wastewater Parity Obligation proposed to be executed;

(b) A Certificate of the District that the project to be acquired and constructed with the proceeds of such Wastewater Parity Obligation is technically feasible and the estimated cost of the acquisition and construction thereof is reasonable, and (after giving effect to the completion of all uncompleted projects) the rates, fees and charges estimated to be fixed and prescribed for the natural gas service for each Fiscal Year from the Fiscal Year in which such Wastewater Parity Obligation is executed to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted project are economically feasible and reasonably considered necessary based on projected operations for such period;

(c) At the time of such execution of Wastewater Parity Obligations, no Event of Default shall have occurred and be continuing; and

(d) Upon the issuance of such Wastewater Parity Obligations a Reserve Fund shall be established for such Wastewater Parity Obligations in an amount at least equal to is a sum at least equal to the Reserve Requirement of such Wastewater Parity Obligations.

Nothing in the Wastewater Installment Sale Agreement prohibits or impairs the authority of the District to issue bonds or other obligations secured by a lien on Wastewater Net Revenues that is subordinate to the lien established under the Wastewater Installment Sale Agreement, upon such terms and in such principal amounts as the District may determine.

Insurance; Net Proceeds

The District will procure and maintain such insurance relating to the Wastewater Enterprise (but only if and to the extent available at reasonable cost from reputable insurers) a standard comprehensive general insurance policy or policies in protection of the Authority, the District, and their respective members, officers, agents and employees. In addition, the District will procure and maintain, or cause to be procured and maintained (but only in the event and to the extent available from reputable insurers at reasonable cost) casualty insurance against loss or damage to any improvements constituting any part of the Wastewater Enterprise, covering such hazards as are customarily covered with respect to works and property of like character.

Such insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the District, and may be maintained in whole or in part in the form of self-insurance by the District, subject to the provisions of the Wastewater Installment Sale Agreement, or in the form of the participation by the District in a joint powers agency or other program providing pooled insurance.

All amounts collected from insurance against accident to or destruction of any portion of the Wastewater Enterprise shall be Wastewater Gross Revenues and shall be used to repair, rebuild or replace such damaged or destroyed portion of the Wastewater Enterprise or otherwise as permitted by the Wastewater Installment Sale Agreement.

FINANCING PLAN

Sources and Uses of Funds

Table 1 sets forth the estimated sources and uses of funds relating to the issuance of the Bonds.

Table 1
DISCOVERY BAY PUBLIC FINANCING AUTHORITY
SERIES 2012 ENTERPRISE REVENUE BONDS

ESTIMATED SOURCES AND USES OF FUNDS	
SOURCES	
<u>Sources of Funds:</u>	
Principal Amount of Bonds	\$
<i>Less:</i> Net Original Issue Discount	
<i>Less:</i> Underwriter's Discount	
Total Sources	\$
USES	
<u>Uses of Funds:</u>	
Deposit to Water Project Fund	\$
Deposit to Wastewater Project Fund	
Deposit to Interest Account ^[1]	
Deposit to Costs of Issuance Fund ^[2]	
Total Uses	\$

^[1] This is the amount anticipated to pay accrued interest through _____, 201_.

^[2] Moneys deposited in the Costs of Issuance Fund are expected to be used to pay the fees and expenses of Bond Counsel, Disclosure Counsel, the Trustee, and the rating agency, as well as printing and other miscellaneous costs and expenses in connection with the issuance, sale and delivery of the Bonds.

Debt Service Requirements

Table 2 sets forth annual principal and interest payments on the Bonds (assuming no redemptions of the Bonds, other than mandatory sinking fund redemptions).

Table 2
DISCOVERY BAY PUBLIC FINANCING AUTHORITY
SERIES 2012 ENTERPRISE REVENUE BONDS

ANNUAL DEBT SERVICE SCHEDULE			
<u>Bond Year (December 1)</u>	<u>Principal Portion of Debt Service</u>	<u>Interest Portion of Debt Service</u>	<u>Total Debt Service</u>
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
Totals			

Table 3 shows the relative contribution of the Water Installment Payments and the Wastewater Installment Payments to the total debt service requirements of the Bonds:

Table 3
DISCOVERY BAY PUBLIC FINANCING AUTHORITY
SERIES 2012 ENTERPRISE REVENUE BONDS

ANNUAL DEBT SERVICE SCHEDULE			
<u>Bond Year</u> (December 1)	<u>Water</u> <u>Installment Payment</u>	<u>Wastewater</u> <u>Installment Payment</u>	<u>Total Annual</u> <u>Debt Service</u>
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
Totals			

Debt Service Coverage Projections

Water--Projected Operating Results and Debt Service Coverage. The District’s estimated projected operating results and debt service coverage relating to the Water System for the Fiscal Years ending June 30, 2013, through June 30, 2017, are set forth in the following Table 4, reflecting certain significant assumptions concerning future events and circumstances (the “Coverage Projections”). The financial forecast represents the District’s estimate of projected financial results based upon its judgment of the probable occurrence of future events. In addition, the assumptions set forth in the footnotes to Table 4 are material to the development of the District’s financial projections. Variations in the any one of the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material. See “RISK FACTORS – Accuracy of Assumptions” herein.

Table 4
DISCOVERY BAY PUBLIC FINANCING AUTHORITY
SERIES 2012 ENTERPRISE REVENUE BONDS
WATER ENTERPRISE

WATER--PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE					
	Projected 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017
<u>GROSS REVENUES</u>					
Charges for Services ^[2]					
Interest and Investment Revenue					
Total Gross Revenues					
<u>OPERATING EXPENSES</u>^{[2][3]}					
Total Operating Expenses					
<i>Net Revenues</i>					
<u>TOTAL DEBT SERVICE</u>					
Total Debt Service ^[3]					
<i>Debt Service Coverage</i> ^{[3][4]}					

[1] Projections assume _____.

[2] Excludes depreciation, amortization, loss on capital assets, and debt service expenses.

[3] Portion of Bonds debt service allocable to Water Enterprise.

[4] Shown on a Fiscal Year basis.

Wastewater--*Projected Operating Results and Debt Service Coverage*. The District’s estimated projected operating results and debt service coverage relating to the Wastewater System for the Fiscal Years ending June 30, 2013, through June 30, 2017, are set forth in the following Table 5, reflecting certain significant assumptions concerning future events and circumstances (the “Coverage Projections”). The financial forecast represents the District’s estimate of projected financial results based upon its judgment of the probable occurrence of future events. In addition, the assumptions set forth in the footnotes to Table 5 are material to the development of the District’s financial projections. Variations in the any one of the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material. See “RISK FACTORS – Accuracy of Assumptions” herein.

Table 4
DISCOVERY BAY PUBLIC FINANCING AUTHORITY
SERIES 2012 ENTERPRISE REVENUE BONDS
WASTEWATER ENTERPRISE

WASTEWATER--PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE					
	Projected 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017
<u>GROSS REVENUES</u>					
Charges for Services ^[1]					
Interest and Investment Revenue					
Total Gross Revenues					
<u>OPERATING EXPENSES</u> ^{[1][2]}					
Total Operating Expenses					
<i>Net Revenues</i>					
<u>TOTAL DEBT SERVICE</u>					
Total Debt Service ^[3]					
<i>Debt Service Coverage</i> ^{[3][4]}					

[1] Projections assume _____.

[2] Excludes depreciation, amortization, loss on capital assets, and debt service expenses.

[3] Portion of Bonds debt service allocable to Wastewater Enterprise.

[4] Shown on a Fiscal Year basis.

THE DISTRICT

General

The Town of Discovery Bay is an unincorporated community within the County of Contra Costa (the “County”). The District is governed by a 5-member elected Board of Directors. The District provides municipal water treatment and distribution services as well as wastewater collection, transmission and treatment services. The District also provides parks and landscaping, and recreation services.

The District encompasses an area of approximately 7 square miles and, has a population of approximately 14,000 persons, according to the 2010 United States Census report estimates. The District is located in eastern Contra Costa County in the Central Valley region of California, approximately 55 miles east of San Francisco, 65 miles south of Sacramento, 15 miles east of Antioch and approximately 15 miles north of Livermore. The city of Brentwood is approximately 6 miles northwest along State Highway 4. Temperatures are fairly mild year-round, average highs are between 65 and 75 degrees in the summer, and average lows are between 52 and 65 degrees during the remainder of the year. Average annual rainfall, mostly occurring between December and March, is approximately 10 inches per year. See “APPENDIX D – GENERAL INFORMATION REGARDING THE DISTRICT AND SURROUNDING AREA” herein.

The District’s general fund is not pledged to secure payment of, and the taxing power of the District is not pledged for, the principal of and interest on the Bonds.

Board of Directors. The Board of Directors are elected by the registered voters in the District to staggered four-year terms. The current Directors are listed in the following table:

<u>Board Member</u>	<u>Position</u>	<u>Expiration of Term</u>
Chris Steele	President	December 2014
Kevin Graves	Vice-President	December 2014
Jim Mattison	Board Member	December 2012
Mark Simon	Board Member	December 2012
Ray Tetreault	Board Member	December 2012

Key District Personnel. Day-to-day management of the District, the Water Enterprise and the Wastewater Enterprise is delegated to the General Manager, Finance Manager and Water and Wastewater Manager. The District Counsel provides legal services to the District. A brief biography of certain current key personnel is set forth below:

Richard J. Howard. Mr. Howard joined the District in June 2010 as the General Manager and is responsible for the day-to-day operations of the District. Prior to joining the District, Mr. Howard was the Deputy Executive Director for the North County Transit District in Oceanside California four years, where he was responsible for the day-to-day operations of the Transit District’s four major departments: Rail Services; Bus Operations and Maintenance; Fiscal and Support Services; and Communications and Business Development. Prior to NCTD, Mr. Howard was Deputy District Manager of Mission Viejo CA, for eight years. In that role, Mr. Howard was responsible for many of the city’s major capital improvements, including managing the construction of a new 42,000 square foot public library and 52,000 square foot city hall, which opened on time and under budget in March 2002. Mr. Howard has also

consulted in the Transportation business and worked on a variety of private and recreational ventures. Mr. Howard holds a Bachelor's Degree in Political Science from the University of San Diego and a Master's Degree in Public Administration from the University of Southern California.

Dina Breitstein. Ms. Breitstein joined the District in 2011 as the Finance Manager and is responsible for the day to day financial operations of the District. Ms. Breitstein oversees all governmental accounting, reporting and records maintenance and also has the responsibility for coordinating all external auditing functions. The Finance function is also responsible for the continuing development of financial accounting software and implementation of new technologies to increase accuracy and efficiency in the accounting processes, as well as improve internal and external reporting. Prior to joining the District Ms. Breitstein worked as a Regional Controller for mid-sized semi-conductor company where she was responsible for the financial operations of the Human Resources, Legal and the Financial Services Departments, as well as the European Region. Ms. Breitstein attended the University of Phoenix where she Majored in Business Administration and minored in Finance and Accounting.

Management and Operations

Veolia Water West Operating Services, Inc, (the "Veolia") provide the District with operating and maintenance services for of the Water and Wastewater Facilities pursuant to a contract dated as of the 1st day of May, 2011 (the "Management Contract"). The Management Contract provides that Veolia will at all times staff the District with a minimum of eight employees who have met appropriate licensing and certification requirements of the State of California. The initial term of the Management Contract is sixty (60) months commencing on May 01, 2011 and continuing until April 30, 2016. Thereafter, the parties may mutually decide to extend or renew the Management Contract for one (1) or two (2) successive terms of sixty months (60) months each subject to approval by the District Board of Directors.

Investment Policy

The District's Investment Policy, the most recent version of which was adopted by resolution of the District Board on January 18, 2012, is intended to provide guidelines and restrictions for prudent investment of the District's unexpended cash reserves. In accordance with Section 61050(b) of the California Government Code, the Contra Costa County Treasurer serves as the District's Treasurer, and is therefore responsible for overseeing the District's investment portfolio.

The Contra Costa County Treasurer directs investments pursuant to the Contra Costa County Investment Policy, adopted pursuant to Board of Supervisors action on June 21, 2011. The Contra Costa County Investment Policy is included as a part of the District Policy and serves as the prevailing Investment Policy of the District.

The District is, however, responsible for directing the Treasurer as to the authorized types of investments, maturity dates, and amount in each investment vehicle. The District's Investment Policy sets forth the policies and procedures applicable to the investment of District funds and designates eligible investments. The Investment Policy directs that investment of the funds of the District is directed to the goals of safety, liquidity and yield.

Reserve Policy

The District's Reserve Policy, the most recent version of which was approved by the District on January 4, 2012, provides for the establishment of Water and Wastewater reserves of not less than 30% of respective District Enterprise revenues on an annual basis. The Reserve Policy is intended to assure adequate reserves for ongoing needs while minimizing the need for new debt. The reserve levels established in the policy also help provide rate stabilization and ensure adequate fund levels to meet aging infrastructure replacements, unanticipated emergencies, and future expansion needs of the District.

THE WATER ENTERPRISE

The District supplies treated groundwater to about 16,000 people for residential, commercial and irrigation uses through approximately 46 miles of distributions pipes to 5,523 service connections

The District's service area covers approximately nine square miles and includes seven existing developments. Total water requirements in Discovery Bay are currently about 1,335 million gallons per year ("MGY"), which equates to an average daily demand of about 3.7 million gallons per day ("MGD"), or about 2,540 gallons per minute ("gpm").

Water Supply Sources

The District derives all of its water supply from five active groundwater supply wells (Wells 1B, 2, 4A, 5A and 6). The District tests the supply wells every two years to assess well specific capacity and pump station performance. The total combined production from the wells ranges from approximately 7,400 gpm during summer dry year conditions to approximately 8,500 gpm during winter wet year conditions.

The wells deliver raw water to the District's two water treatment plants ("WTP") through dedicated raw water pipelines. Wells 1B, 2 and 6 deliver water to Willow Lake WTP, and Wells 4A and 5A deliver water to the Newport WTP.

Wells and Pump Stations

Well 1B

Well 1B is located on the same site as former Wells 1 and 1A which have been abandoned. Well 1B is equipped with a pump designed to deliver 1,700 gpm to the Willow Lake WTP but has experienced a decline in capacity and can only deliver approximately 1,200 gpm to 1,600 gpm to the treatment plant depending on groundwater level conditions.

Well 2

Well 2 is the oldest active water supply well in the system at approximately 40 years old. Well 2 delivers water to Willow Lake WTP at flow rates approximately 850 gpm. Well 2 is the only well in the system equipped with an oil-lubricated pump.

Well 4A

Well 4A is approximately 15 years old and has been the most reliable producer in the system requiring a minimum amount of maintenance. Well 4A is equipped with a submersible pump that delivers 1,800 to 2,000 gpm to the Newport WTP. Well 4A is located at Newport WTP.

Well 5A

Well 5A is about 20 years old and has a history of maintenance issues. The well has experienced corrosion problems that have caused damage to the well casing and column pipe. The well casing was

patched in 1996 and the column pipe issues have been addressed with a protective coating system. There have also been issues associated with high total dissolved solids (TDS) and discoloration in the water. Well 5A is one of the highest producers in the system delivering 1,800 to 2,000 gpm to the Newport WTP. Issues associated with Well 5A corrosion are being addressed by a current maintenance program.

Well 6

Well 6 was constructed in 2009 and is the newest well in the system. The well is located at the Willow Lake WTP delivering raw water to the plant in conjunction with Wells 1B and 2. The well pump was designed to deliver 1,700 gpm during dry year conditions. Recent testing in the Fall of 2011 of the well’s specific capacity indicate the pumping equipment can deliver flows between 1,800 gpm and 2,000 gpm.

A summary of the District’s wells and well pumps information is presented in Table __, below.

Table __
DISCOVERY BAY PUBLIC FINANCING AUTHORITY
SERIES 2012 ENTERPRISE REVENUE BONDS
WATER ENTERPRISE

WELL AND PUMP INFORMATION					
	<u>Well 1B</u>	<u>Well 2</u>	<u>Well 4A</u>	<u>Well 5A</u>	<u>Well 6</u>
WELL INFO					
Drilling Date	1995	1971	1996	1991	2009
Well Diameter (inch)	16”	12”	16”	16”	18”
Well Depth (ft)	350’	348’	357’	357’	360’
Top Screen Interval	271’/289’	245’/335’	307’/347’	261’/291’	270’/295’
24-hr Specific Capacity ¹	11 gpm/ft	12 gpm/ft	23 gpm/ft	21 gpm/ft	28 gpm/ft
PUMP INFO					
Pump Type ²	Submersible	Oil Lube	Submersible	Water Lube	Submersible
Installation Date	2003	2003	2001	2004	2010
Pump Setting Depth (ft)	260’	220’	180’	240’	250’
Column Diameter (inch)	12”	8”	12”	10”	12”
Bowl Manufacturer	Byron Jackson	Goulds	Flowsolve	Floway	Flowsolve
Impeller Model	13MQH	11CHC	13MQH	14DKH	14EMM
Number of Stages	3	4	3	3	3
Motor Horsepower	150 HP	100 HP	150 HP	200 HP	150 HP
Well Control	Willow Tanks	Willow Tank	Newport Tanks	Newport Tanks	Willow Tanks
Capacity – Dry Year	1,200 gpm ³	800 gpm	1,800 gpm	1,800 gpm	1,800 gpm
Capacity – Wet Year	1,600 gpm ³	900 gpm	2,000 gpm	2,000 gpm	2,000 gpm

1. 24-hr specific capacity is based on well testing results during 2009 and 2010.
2. Oil Lube: oil lubricated lineshaft vertical turbine pump.
Water Lube: water lubricated lineshaft vertical turbine pump.
Submersible: submersible motor vertical turbine pump.
3. Upon completion of the Well 1B pump upgrade the well capacity is projected to range between 1,500 and 1,800 gpm. This will result in a total source capacity of 7,700 gpm during dry year condition and 8,700 gpm during wet year condition.

Source: District

Water Treatment

Raw water from the wells is delivered to and treated at two water treatment plants (“WTP”), known as Newport WTP and the Willow Lake WTP. Storage tanks are located at each plant and are used to provide (i) pressure equalization throughout the system by controlling the operations of the well pumps, and (ii) reserves for fire safety. Booster facilities are also located at the WTPs and are used to pump water from storage to provide the flow and pressure required in the distribution system. Each water treatment plant is equipped with standby generators to operate the facilities in the event of prolonged power outages.

Water Distribution System

The water distribution system consists of a network of approximately 46.4 miles of mainline piping varying in material, age and size, ranging in diameter from 6-inch through 16-inch, all in one pressure zone. The system contains approximately 18 miles of asbestos cement (“AC”) pipe, 28 miles of PVC pipe and about 1 mile of cast iron and ductile iron pipe.

The original housing developments in the District (“Discovery Bay Proper”) were constructed with AC pipe in the early 1970’s, and over time some of its water mains have been replaced with PVC pipe. The pipes in Discovery Bay Proper consist mostly of 8-inch and 12-inch mainlines, and the smaller individual streets are served by 6-inch and some 8-inch pipe. There are 11 pipe crossings in Discovery Bay Proper that loop mainlines together beneath the channels and creeks that surround the neighborhoods through 6 and 8-inch cement and motor lined iron pipe. The newer developments (“Discovery Bay West”) were constructed mostly of PVC pipe and contain larger diameters with 16-inch and 12-inch mainlines and 8-inch pipe on the smaller individual streets. A majority of the AC pipe and cast iron pipe crossings are about 40 years of age. The remaining water mains range from 10 to 30 years of age.

THE WASTEWATER ENTERPRISE

The Wastewater System, which includes a biological treatment facility, 15 sewage pumping stations and approximately 30 miles of sewer lines, is currently permitted to discharge treated wastewater into Old River. The various facilities and capacities of the Wastewater System are described below.

The Collection System

There are fifteen sewage pumping stations within the Wastewater System which are listed in Table ___ below.

**Table ___
DISCOVERY BAY PUBLIC FINANCING AUTHORITY
SERIES 2012 ENTERPRISE REVENUE BONDS
WASTEWATER ENTERPRISE**

COLLECTION SYSTEM PUMP STATIONS DATA								
<u>Pump Station</u>	<u>Location</u>	<u>Type of Pumps</u>	<u>Number of Pumps</u>	<u>Capacity (gpm)</u>	<u>Horse-power</u>	<u>When Const.</u>	<u>When Last Replaced</u>	<u>When Last Rehab. (# of Pumps)</u>
A	Discovery Point Beaver Lane and	Self Prime	2	225	3	70's	2008	-
C	Willow Lake Rd Discovery Bay Blvd Near Beaver	Self Prime	2	300	5	80's	-	2009
D	Lane Discovery Bay Blvd and Cabrillo	Self Prime	2	300	5	70's	2008	-
E	Point Willow Lake Rd. and River Lake	Self Prime	2	680	10	70's	2008	-
F	Rd. Willow Lake Rd. and Starboard Dr.	Non-Clog, Dry Pit	2	760	10	70's	-	2008/9
G	Marina Rd. and Cherry Hills Dr.	Submersible	2	225	3	80's	-	2009
H	Clipper Drive and Windward Point	Submersible	2	225	3	90's	-	-
J	Newport Drive and Beacon Place	Submersible	2	690	15	90's	-	-
R	Fog Horn Way and Tiller Court	Submersible	2	170	3	90's	-	2008/9
S	Newport Newport Drive	Submersible	2	250	15	1994	-	2009 (1)
	Lakeshore II Yosemite Court	Submersible	4	1,200	100	2002	2006	2011 (2)
	The Lakes 1 Fern Ridge Circle	Submersible	3	1,100	29	2004	-	2009 (2)
	The Lakes 2 Pinehollow Circle	Submersible	3	1,000	45	2004	-	2009 (1)
	Bixler Rd. Bixler Road North	Submersible	3	450	7.5	2005	-	-
		Submersible	2	110	3	2008	-	-

Source: District

Wastewater flows and loads handled by the Wastewater System are detailed in Table __ below.

Table __
DISCOVERY BAY PUBLIC FINANCING AUTHORITY
SERIES 2012 ENTERPRISE REVENUE BONDS
WASTEWATER ENTERPRISE

SUMMARY OF FLOWS AND LOADS	
Parameter	Value
<i>Flow, millions of gallons/day</i>	
Average Dry Weather Flow (ADWF)	1.75
Average Annual Flow (AAF)	1.80
Average Day Maximum Monthly Flow (ADMMF)	1.98
Peak Day Flow (PDF)	3.60
Peak Hour Flow (PHF) ^(a)	5.40
<i>Average Constituent Concentrations, mg/^(b)</i>	
BOD	200
TSS ^(c)	200
TKN ^(d)	40
<i>Average Annual Load (AAL), lb./day</i>	
BOD	3,002
TSS ^(c)	3,002
TKN ^(d)	600
<i>Average Day Maximum Monthly Load (ADMML), lb./day</i>	
BOD	3,903
TSS ^(c)	3,903
TKN ^(d)	781

(a) Allowance at 3 x AAF.

(b) AAF combined with AAL.

(c) Based on 1.0x BOD.

(d) Based on 0.2x BOD. Confirm with future monitoring.

Source: District

The Wastewater Treatment Plant

The District’s wastewater treatment plant (“WWTP”) includes an influent pump station, influent screening, secondary treatment facilities using oxidation ditches, and ultraviolet (“UV”) disinfection prior to export pumping for discharge into Old River. Waste sludge is aerobically digested and/or stored in lagoons, dewatered using a belt filter press, and dried in active solar drying units before landfill disposal.

The overall treatment system is located in two distinct geographical areas, referred to as Plant 1 and Plant 2. Plant 1 is located about 1/4 mile north of Highway 4 within the Discovery Bay Development area, while Plant 2 is located immediately south of Highway 4. The two plants are interconnected and are dependent upon each other for various functions. Plant 1 was the original plant, which was started as a

pond treatment system. Over the years, Plant 1 was upgraded to its current configuration with an oxidation ditch for secondary treatment. Plant 2 was originally constructed in the years 2000 through 2002 and has undergone several upgrades since then.

The influent pump station that serves both plants is located on the Plant 1 site. The discharge from the influent pump station is split approximately evenly to Plants 1 and 2 for treatment in screening and secondary treatment facilities. The secondary effluent from both plants is then combined within Plant 2 for UV disinfection and export pumping for discharge to Old River. All of the sludge handling facilities for both plants are located at Plant 2.

The Export Pump Station at Plant 2 currently includes four 20 horsepower vertical turbine pumps, each rated at 1.6 MGD at 45 feet of head. There is space for a fifth pump to be added.

Sludge dewatering and drying facilities at Plant 2 include a 1.5 meter monobelt belt filter press and two active solar drying beds, each measuring 40 feet by 204 feet. The active solar drying beds are covered by greenhouse structures and include automated tilling machines and ventilation systems to promote sludge drying.

Existing Plant Performance

The District's WWTP effluent is discharged to Old River at a location approximately one-half mile southeast of Plant 2. The existing WWTP provides a secondary level of treatment to meet key discharge requirements contained under a National Pollution Discharge Elimination System (NPDES) permit as regulated by the California Regional Water Quality Control Board, Central Valley Region (the "RWQCB"). The current permit was adopted on December 4, 2008 (Order No. R5-2008-0179, NPDES No. CA0078590) and needs to be renewed approximately every five years. In general, the WWTP has been successful in meeting the discharge requirements, with the exception of occasional historical violations of the Total Suspended Solids and Total Coliform limits and violation of the electrical conductivity limit in 2010.

In addition to effluent limitations, the permit contains receiving water limitations that govern the degree to which the plant effluent can impact conditions in Old River. Included, for example, are limitations on bacteria, dissolved oxygen, pH, turbidity and biostimulatory substances (as well as others). No receiving water limitation compliance issues are known to exist or are anticipated.

Influent Pump Station

The existing Influent Pump Station, although located at Plant 1, serves both Plants 1 and 2. Influent Pump Station splits the influent wastewater flow and directs it to each of Plants 1 and 2 where secondary treatment is administered.

The Influent Pump Station has a main sump compartment that receives influent raw sewage from the community via a 12-inch gravity sewer and a 12-inch forcemain (from Pump Station F). The sump also receives drainage from the chemical pump station and sewage from sources within Plant 1 through 4 and 6-inch pipelines.

From the main sump compartment, the raw sewage flows over manually adjustable weir gates into

two separate pump sumps for pumping to Plants 1 and 2, respectively. There is an opening in the dividing wall so that each sump can overflow into the other, if the water level should rise substantially above the normal operating level.

The sump serving Plant 1 is currently fitted with one large pump and one small pump, rated at 2.0 and 1.15 MGD, respectively, when both pumps are running at the same time. Therefore, the total pumping capacity to Plant 1 is about 3.15 MGD. The reliable pumping capacity with the large pump out of service is 1.5 MGD (the small pump running alone produces more flow than when running together with the large pump).

The sump serving Plant 2 is fitted with one large pump and two small pumps, which are identical to the corresponding units serving Plant 1. While pumping to Plant 2, the total capacity with all pumps in service is about 3.3 MGD. The reliable pumping capacity with one large pump out of service is about 2.5 MGD. There are parallel 8-inch and 12-inch forcemains from the influent pump station to Plant 2. The capacities listed here are based on using both forcemains.

Based on the capacities indicated above, the total reliable capacity of the Influent Pump Station can be based on the lowest capacity that would occur with one large pump out of service from either the Plant 1 or Plant 2 side. Accordingly, the total reliable capacity is estimated to be about 4.8 MGD with the large pump on the Plant 1 side out of service. In this case, the flows to Plants 1 and 2 would be about 1.5 and 3.3 MGD, respectively. If this condition should occur, the Plant 1 sump level would rise, submerging the weir gate on that side and forcing more flow to the Plant 2 pumps.

Headworks

There are currently separate headworks systems at Plant 1 and at Plant 2. Each headworks includes a 12-inch Parshall flume for measuring the flow, a mechanical screening unit and a manual bypass bar screen unit. The channels of both headworks facilities are covered and vented through soil odor scrubber systems. At Plant 2, there is an automated sampler that is used to characterize the influent wastewater for both plants.

Secondary Treatment Facilities

The existing secondary treatment facilities are divided between Plant 1 and Plant 2. At each plant, there is one oxidation ditch, two secondary clarifiers and other ancillary facilities. These secondary treatment facilities are comprised of two separate activated sludge systems. The oxidation ditches are the reactor basins wherein mixed cultures of microorganisms are used to remove organic material and ammonia contained in the influent wastewater and produced within the process. The suspension of microorganisms and other wastewater solids in each oxidation ditch is referred to as mixed liquor. The microorganisms require oxygen, which is provided by four brush rotors in each ditch. The brush rotors also provide the motive force needed to keep the mixed liquor circulating around each ditch at a velocity that is adequate to keep the microorganisms and other solids in suspension.

At each plant, the mixed liquor from the oxidation ditch flows to a splitter box that is used to divide the flow equally to two secondary clarifiers. Within the secondary clarifiers, the microorganisms and other wastewater solids are settled to the bottom, while the clarified secondary effluent flows over weirs and into

a collection channel arranged around the periphery of the clarifier before exiting the clarifier structure. The settled solids are collected by a rotating mechanism above the floor of the clarifier and are, for the most part, pumped back to the oxidation ditch using the return activated sludge (“RAS”) pumps. A portion of the settled solids are wasted from the system and are pumped (using waste activated sludge (“WAS”) pumps) to the solids handling facilities. In Plant 1, the clarifiers are at a higher elevation than the upstream splitter box; therefore, a clarifier lift pump station is used ahead of each clarifier.

Secondary Effluent Lift Station

The Secondary Effluent Lift Station consists of a rectangular concrete sump that is mostly below grade, three large (12-inch discharge, 15 horsepower) and two small (8-inch discharge, 5 horsepower) vertical turbine pumps and ancillary facilities. Each of the large pumps has a design capacity of 2.2 MGD and each of the small pumps has a design capacity of 1.25 MDG.

The secondary effluent flows from each plant are combined in the sump of the Secondary Effluent Lift Station, which is located on the Plant 2 site. The Secondary Effluent Lift Station then pumps the secondary effluent to the downstream Parshall flume and UV disinfection system for final treatment prior to discharge.

UV Disinfection

Ultraviolet (“UV”) disinfection is currently employed at the WWTP as the means for meeting effluent coliform limits specified in the plant’s NPDES permit for discharge into Old River.

Currently, the UV system at the WWTP includes two UV channels. The first channel was installed in 2000 and contains TrojanUV3000 equipment; the second channel was installed in 2010 and contains TrojanUV3000Plus equipment.

Emergency Storage

Within the Plant 1 site, there is an existing earthen basin with a volume of approximately 5 million gallons that is available for use as an emergency storage basin, but is currently not being used. This basin was originally an aerated lagoon, prior to the construction of the oxidation ditch at Plant 1. When the oxidation ditch was constructed, the aerated lagoon was converted to a waste sludge holding basin. The waste sludge holding basin was subsequently abandoned when new sludge handling facilities were constructed at Plant 2. The earthen basin is recognized as an emergency storage basin in the NPDES permit and can be used as such by using portable pumping equipment for filling and draining.

Solids Handling

All of the solids handling facilities for both plants are located at Plant No. 2. The solids handling facilities consist of waste activated sludge (“WAS”) pumping systems at each plant, a small aerobic digester (0.69 million gallons), two sludge lagoons (5.75 million gallons each), a belt press dewatering facility, and two active solar sludge dryers.

The WAS from both plants is pumped Plant No. 2 for processing, after which the resultant sludge is

then stockpiled and land applied for final disposal.

SCADA System

The District utilizes a Supervisory Control And Data Acquisition (“SCADA”) system to monitor and control the function of both the Water and Wastewater Systems. The SCADA system controls functions at the water treatment plants, water wells, wastewater treatment facilities, lift stations and other facilities.

The SCADA system includes a computer, 34 programmable logic controllers at remote sites throughout the District, and a radio telemetry communication network over which the computer and programmable logic controllers communicate with each other.

CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES

California Constitution Articles XIII A and XIII B

Article XIII A of the California Constitution limits the taxing powers of California public agencies. Article XIII A provides that the maximum ad valorem tax on real property cannot exceed 1% of the “full cash value” of the property, and effectively prohibits the levying of any other ad valorem property tax except for taxes above that level required to pay debt service on voter-approved general obligation bonds. “Full cash value” is defined as “the County Assessor’s valuation of real property as shown on the 1975-76 tax bill under ‘full cash value’ or, thereafter, the appraisal value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The “full cash value” is subject to annual adjustment to reflect inflation at a rate not to exceed 2% or a reduction in the consumer price index or comparable local data, or declining property value caused by damage, destruction or other factors.

The foregoing limitation does not apply to ad valorem taxes to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property thereafter approved by the voters as required by law.

Under Article XIII B of the California Constitution, state and local government entities have an annual “appropriations limit” which limits their ability to spend certain moneys called “appropriations subject to limitation,” which consist of tax revenues, certain state subventions and certain other moneys, including user charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge.

The District is of the opinion that the respective water and wastewater service and user charges imposed by the District do not exceed the costs the District reasonably bears in providing the respective water and wastewater services. 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 the consumer price index, population, and services provided by these entities. Among other provisions of Article XIII B, if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

California Constitution Articles XIII C and XIII D

On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the California Constitution, which contain a number of provisions affecting the ability of local governments to levy and collect new or increased taxes, assessments, and property-related fees and charges.

Article XIII C provides that a local government may not impose, extend, or increase local taxes until such taxes are submitted to the electorate for approval. General taxes, imposed, extended, or increased for general governmental purposes of the local government, require a majority vote and special taxes, imposed, extended, or increased for specific purposes, require a two-thirds vote. In addition, Article XIII C provides that the constitutional initiative power will not be prohibited or otherwise limited in matters of reducing or

repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges. However, on July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code Section 5854, which states: “Section 3 of Article XIIC of the California Constitution, as adopted at the November 5, 1996 general election, will not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights protection by Section 10 of Article I of the United States Constitution.” Government Code Section 5854 appears to limit the voters’ power to repeal or reduce Water and Wastewater System fees and charges if such reduction would interfere with the District’s payment of Installment Payments. If Government Code Section 5854 becomes the subject of a challenge, however, no guarantee can be made that the courts will agree with such interpretation.

Article XIIC does not define the terms “local tax,” “assessment,” “fee” or “charge.” In *Bighorn-Desert View Water Agency v. Verjil* (“Bighorn”), 39 Cal. 4th 205 (2006), decided by the California Supreme Court on July 24, 2006, the petitioner sought to establish his right to reduce a local water agency’s water delivery charges through use of the initiative power. In holding for the petitioner on this issue, the court stated that the absence of a restrictive definition of “fee” or “charge” in Article XIIC suggests that those terms include all levies that are ordinarily understood to be fees or charges, including all of the property-related fees and charges subject to Article XIID. Though the Supreme Court did not arrive at an exact definition of such terms, it did determine that fees and charges that are fees and charges within the meaning of Article XIID are necessarily fees and charges within the meaning of Article XIIC.

The Court held that Article XIIC authorizes the use of the initiative process to reduce water delivery charges but that it does not authorize use of the initiative power to impose a voter-approval requirement on future increases in water delivery charges. The court declined to determine whether the initiative power is limited by other statutory provisions requiring that water service charges be set at a level that will pay system operating expenses and debt service since that issue was not before the court.

Consequently, the voters of the District could, by future initiative, seek to repeal or reduce any local tax, assessment, fee or charge, including the District’s water and wastewater service fees and charges, which are the source of Net Revenues pledged to the payment of the Installment Payments securing the Bonds. Though the use of the initiative power is arguably limited in a case such as this where fees and charges have been imposed by the District for services of the respective Water and Wastewater Systems that are pledged to the payment of the Installment Payments securing the Bonds, there can be no assurance that the voters of the District will not seek to approve such an initiative which attempts to reduce the fees and charges imposed by the District for services of the respective Water and Wastewater Systems that are pledged to the payment of the Installment Payments securing the Bonds.

Article XIID imposes various procedural and substantive requirements on local governments that levy an “assessment,” “fee,” or “charge.” Article XIID defines “fees” or “charges” as “any levy other than an ad valorem tax, a special tax, or an assessment imposed by a [local government] upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service.” “Property related service” means a public service having a direct relationship to property ownership (property ownership includes tenancies where tenants are directly liable to pay the fee or charge). In particular, a fee or charge (i) may not exceed the funds required to provide the property related service, (ii) may not be used for any purpose other than that for which the fee or charge was imposed, (iii) may not

exceed the proportional cost of the service attributable to the parcel, (iv) may not be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question, and (v) may not be imposed for general governmental services.

In addition, before any property related fee or charge may be imposed or increased, the local government agency must provide mailed notice forty-five (45) days in advance of a hearing regarding the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the local government agency may not impose or increase the fee or charge. Moreover, except for fees or charges for water, wastewater, and refuse collection services (or fees for electrical and gas service, which are expressly exempted from Proposition 218), no property related fee or charge may be imposed or increased without a majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds approval by those residing in the affected area and voting at the election. Article XIID states that, beginning July 1, 1997, all fees or charges must comply with its provisions.

In *Richmond et al. v. Shasta Community Services District* (“Richmond”), the California Supreme Court held that a water connection fee was not a “property-related” fee or charge subject to Article XIID. However, in the opinion the California Supreme Court suggested in dicta that fees for ongoing water service through an existing connection were “property related” fees and charges imposed on a person as an incident of property ownership. The court addressed this issue directly in the *Bighorn* case discussed above. In its decision, the court cited its discussion in *Richmond* in support of its conclusion that a public agency’s fees and charges for ongoing water service through an existing connection are “property-related” fees and charges imposed on a person as an incident of property ownership for purposes of Article XIID, whether the fees and charges are calculated based on usage or are imposed as a fixed monthly fee.

The District believes that it has complied with the procedures required by Article XIID, as such article has been construed by the California Supreme Court, in connection with the increases in the Water and Wastewater fees and charges approved by the Board of Directors of the District on August 3, 2011. See “THE WATER ENTERPRISE – Water User Rate and Information” and “THE WASTEWATER ENTERPRISE – Wastewater User Rate and Information” herein.

The ability of the District to comply with the covenants in each of the Installment Sale Agreements, including the rate covenants described under “SECURITY FOR THE BONDS – Rate Covenants,” in connection with the levy and collection of Water and Wastewater System service charges could be adversely affected by actions taken or not taken by voters, property owners or other persons obligated to pay Water and/or Wastewater System service charges. Furthermore, the interpretation and application of Proposition 218 will likely be subject to further judicial determinations, and it is not possible at this time to predict with certainty the outcome of such determinations. See also “RISK FACTORS – Rate Process” herein.

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does

not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. The District does not believe that the enactment of Proposition 26 will affect its ability to levy rates and charges for water and wastewater services.

Future Initiatives

Articles XIII A, XIII B, XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the Water and Wastewater System revenues, including the ability to increase or expend such revenues.

RISKS FACTORS

The purchase of the Bonds involves investment risk. If a risk factor materialized to a sufficient degree, it could delay or prevent payment of principal of and interest on the Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various issues. Such risk factors include, but are not limited to, the following matters and should be considered, along with other information in this Official Statement, by potential investors. There can be no assurance that other risk factors will not become material in the future.

General

The payment of principal of and interest on the Bonds is secured solely by a pledge of the Revenues, consisting of mainly Installment Payments and other payments paid by the District pursuant to the Installment Sale Agreements. The obligation of the District to make the Installment Payments is a limited obligation of the District payable solely from a pledge of Net Revenues. The realization of the Net Revenues is subject to, among other things, the capabilities of management of the District, the ability of the District to provide water and wastewater services to its users, and the ability of the District to establish and maintain water and wastewater fees and charges sufficient to provide the required debt service coverage as well as pay for Maintenance and Operation Costs. Among other matters, natural disasters, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums) could adversely affect the amount of Net Revenues realized by the District.

Accuracy of Assumptions

To estimate projected financial results of the Water Enterprise and Wastewater Enterprise, including the Coverage Projections set forth in Tables 4 and 5, and the corresponding projected Net Revenues available to pay debt service on the Bonds, the District has made certain financial forecasts and assumptions with regard to the rates and charges to be imposed in future years, the expenses associated with Enterprise operations and the interest rate at which funds will be invested. The District believes these financial forecasts and assumptions to be reasonable, but variations in the any one of the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those forecasted and such variations may be material, with a possible result being that Net Revenues may prove to be significantly less than projected in this Official Statement. See the caption “THE FINANCING PLAN – Water--Debt Service Coverage Projections for the Bonds and – Wastewater--Debt Service Coverage Projections for the Bonds” herein. Accordingly, such assumptions and projections are at best educated estimates, and are not in any way a guaranty of future performance, and the District assumes no responsibility for the accuracy of such financial forecasts and projections.

Limited Obligation

The obligation of the District to pay the Installment Payments securing the Bonds is a limited obligation of the District and is not secured by a legal or equitable pledge or charge or lien upon any property of the District or any of its income or receipts, except the Net Revenues. The obligation of the District to make the Installment Payments does not constitute an obligation of the District to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. No owner of any Bond may compel the exercise of the taxing power by the District or the forfeiture of any of its property.

Increased Maintenance and Operation Costs

There can be no assurance that expenses of the District with respect to the Water Enterprise or the Wastewater Enterprise will be consistent with the levels contemplated in this Official Statement. Operation and Maintenance Costs could increase at higher rates than currently expected as a result of various factors, including increases in personnel costs, energy costs, chemical costs, pumping costs, technology or regulatory costs, unforeseen costs associated with spills or other accidents involving the Water or the Wastewater Enterprise, and other factors beyond the District’s control. Increases in Operation and Maintenance Costs could require an increase in rates or charges in order to comply with the rate covenants in the Installment Sale Agreements. There can be no assurance that such future rate increases, if necessary, will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. See “RISK FACTORS – Rate Covenants” herein.

District Management

Although the Projects have been sold to the Authority, the District is purchasing the Projects back from the Authority in accordance with each of the Installment Sale Agreements, and has therein agreed to manage and operate the Projects and the Water and Wastewater Enterprises for and on behalf of the Authority, which management has been subcontracted to Veolia pursuant to the terms of Management Contract. The District has covenanted to prescribe, revise and collect rates and charges for the Water and

Wastewater Enterprises at certain levels; however, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to make timely payments with respect to the Bonds. Additionally, the ability of the District to comply with its covenants under the Installment Sale Agreements, and to generate Net Revenues sufficient to pay principal of and interest on the Bonds, may be adversely affected by actions and events outside of the control of the District and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES” herein. Any remedies available to the owners of the Bonds, upon the occurrence of an event of default under the Resolution, the Indenture or Installment Sale Agreements, are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. See “Limitations on Remedies and Bankruptcy.”

Financial Controls

Management of the District is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District, including the Water and Wastewater Enterprise Systems, are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Insurance

The Installment Sale Agreements require the District to obtain and keep in force various forms of insurance or self-insurance, subject to deductibles, for repair or replacement of a portion of the Water and Wastewater Enterprise Systems in the event of damage or destruction thereto. No assurance can be given as to the adequacy of any such self-insurance or any additional insurance to fund necessary repair or replacement of any other portion of either the Water or Wastewater Enterprise Systems. Significant damage to either the Water and/or Wastewater Enterprise Systems could result in a lack of the ability to generate sufficient Revenues to repay the Bonds. Further, the District is not legally obligated under either of the Installment Sale Agreements to maintain, or cause to be maintained, earthquake or flood insurance on the Water and Wastewater Enterprise Systems, and the District does not presently maintain earthquake or flood insurance on behalf of either the Water or the Wastewater Enterprise Systems. No assurance is made that any earthquake or flood insurance will be provided in the future, or if provided, that such insurance will continue to be maintained in the future. If there were to be an occurrence of a flood or severe seismic activity in the District, there could be substantial damage to the Water and/or Wastewater Enterprise System, the cost of repair of which could exceed the net equity available therefore. In the event of significant flood or earthquake damage to either the Water and/or Wastewater Enterprise System, there can be no assurance that Revenues would be sufficient to pay principal of and interest on the Bonds.

Limitations on Remedies and Bankruptcy

The ability of the District to increase water and/or wastewater services charges and to comply with its covenants under the Indenture and the Installment Sale Agreements and to generate Net Revenues

sufficient to pay the Installment Payments in amounts sufficient to pay principal of and interest on the Bonds may be adversely affected by actions and events outside of the control of the District and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitution Articles XIIC and XIID” herein.

Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Indenture and the Installment Sale Agreements are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the Indenture and the Installment Sale Agreements, the rights and obligations under the Bonds, the Indenture and the Installment Sale Agreements may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against municipalities in the State of California. Various legal opinions to be delivered concurrently with the issuance of the Bonds will be so qualified. In addition, the opinion to be delivered by The Weist Law Firm, Bond Counsel, concurrently with the issuance of the Bonds, will also state that the enforceability of the Installment Sale Agreements is subject to the limitations on the imposition of fees and charges by the District relating to the Water and Wastewater Systems, respectively under Article XIIC and XIID of the California Constitution. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto. In the event the District fails to comply with its covenants under the Installment Sale Agreements or to pay Installment Payments securing the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Bonds.

As noted above, the enforcement of the remedies provided in the Indenture and each of the Installment Sale Agreements could prove both expensive and time consuming. In addition, the rights and remedies provided in the Indenture and each of the Installment Sale Agreements may be limited by and are subject to provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors’ rights. If the District were to file a petition under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), the Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the Indenture. So long as the Bonds are held in book-entry form, DTC (or its nominee) will be the sole registered Bondholder and will be entitled to exercise all rights and remedies of Bondholders.

Physical Condition of Water and Wastewater Enterprise Facilities

The reliability of the Water and Wastewater Enterprise is affected by a number of factors including physical and operational vulnerabilities of its facilities. Certain of the Water and Wastewater Enterprise facilities are near the end of their useful life. Long-lived facilities result in decreased reliability due to unplanned outages and place a greater maintenance burden on operations. The District budgets for the maintenance and operations of its facilities; however, the District gives no assurance that any future significant diminished physical status of its facilities would not materially adversely affect the operations of either the Water and/or Wastewater Enterprises. Partial or complete failure of components of either the Water and/or Wastewater Enterprises could cause a material increase in costs for repairs or a corresponding

material adverse impact on Net Revenues.

Energy Costs

No assurance can be given that any future significant reduction or loss of power would not materially adversely affect the operations of the Water and/or Wastewater Systems. The volume of water wastewater conveyed and treated in the Water and Wastewater Enterprises on a daily basis requires a significant amount of power.

Electricity is needed to run several assets including, among other things, pumps, lights, computers, mechanical valves and machinery. The District cannot guarantee that prices for electricity or gas will not increase, which could adversely affect the Water and/or Wastewater Enterprise's financial condition. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES – California Constitution Articles XIII C and XIII D" herein.

Permits and Regulation

The wastewater operations of the District are subject to discharge permits from the Regional Water Quality Control Board (RWQCB), as the enforcement agency for federal and State discharge requirements. The major Wastewater System permit is the Waste Discharge Requirements for the domestic wastewater treatment facility. The District's Waste Discharge Requirements for the Wastewater System are subject to future application to, and approval by, the RWQCB. In addition, such permit will be modified from time to time to provide for increased capacity or other changes in the District's treatment and disposal strategies. The District is unable to predict at this time what additional conditions, if any, will be imposed under the discharge requirements order or whether such new conditions, if any, would impose additional operating constraints on the District's Wastewater System or result in additional costs to the Wastewater System. In the event that the federal government, acting through the USEPA, or the State, acting through the RWQCB or the Department of Health Services, or additional federal or State agencies, should impose stricter water quality standards upon the Wastewater System, the District's expenses could increase significantly and rates and charges would have to be increased accordingly to offset those expenses. It is not possible to predict the direction federal or state regulation will take with respect to water quality standards, although it is likely that, over time, both will impose more stringent standards with attendant higher costs. No assurance can be given that the cost of compliance with such laws and regulations will not adversely affect the ability of the District to generate System Net Revenues in the amounts required by the Installment Sale Agreement to pay the Installment Payments.

Natural Disasters

The area in and surrounding the District, like those in much of California, may be subject to unpredictable droughts, storms, floods, fires, soil expansion and liquefaction and seismic activity that could negatively affect the value of the Water and/or Wastewater Enterprise, as well as other assets of the District. The possibility of the occurrence of some of these conditions and events has not been taken into account in the design of the Water and/or Wastewater Enterprise and has not been taken into account in the designs of other public improvements which may be acquired or constructed by the District or other public agencies.

The District expects that one or more of these conditions will occur from time to time, and, even if

appropriate design criteria have been implemented to mitigate certain geologic events, such conditions may nevertheless result in damage to or destruction of the Water and/or Wastewater Enterprise. If there were to be an occurrence of a severe geotechnical condition or natural disaster in the area of the District, there could be an interruption in the service provided by the Water and/or Wastewater Enterprise resulting in a reduction in the amount of Net Revenues available to pay Installment Payments. Further, damage to components of the Wastewater Enterprise could cause a material increase in costs for repairs or a corresponding material adverse impact on Net Revenues. The District is not obligated under the Resolutions or the Installment Sale Agreements to procure and maintain, or cause to be procured and maintained, nor does the District plan to procure and maintain, earthquake or flood insurance on either the Water and/or Wastewater Enterprise.

Safety and Security

The safety of the facilities of the Water and/or Wastewater Enterprise is maintained via a combination of regular inspections by Veolia as well as the District employees, electronic monitoring, and analysis of unusual incident reports. All above-ground facilities operated and maintained by Veolia and the District, are controlled access facilities with fencing, gates, at certain points. Military conflicts and terrorist activities may adversely impact the operations of the Water and/or Wastewater System or the finances of the District.

The District continually plans and prepares for emergency situations and immediately responds to ensure services are maintained. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that terrorist activities are directed against the assets of the Water and/or Wastewater Enterprise or that costs of security measures will not be greater than presently anticipated. Further, damage to the Water and/or Wastewater Enterprise could require the District to increase expenditures for repairs significantly enough to adversely impact the District's ability to pay Installment Payments for the Bonds.

Economic, Political, Social, and Environmental Conditions

Prospective investors are encouraged to evaluate current and prospective economic, political, social, and environmental conditions as part of an informed investment decision. Changes in economic, political, social, or environmental conditions on a local, state, federal, and/or international level may adversely affect investment risk generally. Such conditional changes may include (but are not limited to) fluctuations in business production, consumer prices, or financial markets, unemployment rates, technological advancements, shortages or surpluses in natural resources or energy supplies, changes in law, social unrest, fluctuations in the crime rate, political conflict, acts of war or terrorism, environmental damage, and natural disasters.

Rate Process

The passage of Proposition 218 by the California electorate, which added Articles XIIC and XIID to the California Constitution, affects the District's ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition or initiative action under Proposition 218. In the event that future proposed rate increases cannot be imposed as a result of a majority protest or initiative, it may adversely affect the ability of the District to generate Net Revenues in

the amounts required by the Installment Sale Agreements to pay the Installment Payments. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES – California Constitution Articles XIIC and XIID.”

The District’s ability to comply with the rate covenant under the Installment Sale Agreements may also be limited by the provisions of Proposition 218. The Weist Law Firm, Bond Counsel, will state in its opinion with respect to the Bonds that the enforceability of each of the Installment Sale Agreements is subject to the limitations on the imposition by the District of certain fees and charges relating to the respective Water and Wastewater Enterprise under Articles XIIC and XIID of the California Constitution. See “APPENDIX E – FORM OF OPINION OF BOND COUNSEL” herein. The District’s ability to comply with the rate covenant may also be adversely affected by other factors as described in this Official Statement.

The foregoing discussion of Proposition 218 should not be considered an exhaustive or authoritative treatment of the issues. The District does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity in this regard. Interim rulings, final decisions, legislative proposals and legislative enactments may all affect the impact of Proposition 218 on the Bonds as well as the market for the Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of Proposition 218.

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse historical or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

Loss of Tax Exemption

As discussed under the caption TAX MATTERS, interest on the Bonds could become included in gross income for purposes of federal income taxation, retroactive to the date the Bonds were issued, as a result of future acts or omissions of the District in violation of its covenants in the Indenture and the Installment Sale Agreements or as a result of current and future legislative proposals, if enacted into law, clarification of the Code, or court decisions.

IRS Audit

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

exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

Uncertainties of Projections, Forecasts and Assumptions

Compliance with certain of the covenants contained in the Installment Sale Agreements and Indenture is based upon assumptions and projections including, but not limited to, those described under “THE FINANCING PLAN.” Projections and assumptions are inherently subject to significant uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur and actual results are likely to differ, perhaps materially, from those projected. Accordingly, such projections are not necessarily indicative of future performance, and the District assumes no responsibility for the accuracy of such projections.

THE AUTHORITY

The Discovery Bay Public Financing Authority is a joint exercise of powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, effective July 1, 2012 by and between the District and the Irrigation District and under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the “Act”). The Authority is authorized pursuant to Article 4 (commencing with Section 6584) of the Act (the “Bond Law”) to borrow money for the purpose, among other things, of financing and refinancing public capital improvements of the District.

The Authority is governed by a five-member board whose members are the same as the Board of Directors of the District. The Authority has no employees and all staff work is done by District staff or by consultants to the Authority. The President acts as the Chairperson of the Authority, the General Manager acts as its Executive Director and the Secretary, and the Finance Manager of the District acts as the Treasurer of the Authority.

FINANCIAL STATEMENTS

Attached as APPENDIX B are the audited financial statements of the District (the “Financial Statements”) for Fiscal Year 2010-11, which include financial statements for the Water and Wastewater Enterprise, prepared by the District’s Finance Department and audited by Croce & Company, Stockton, California (the “Auditor”).

The Auditor’s letter concludes that the Financial Statements, as presented, are accurate in all material respects and are presented in a manner designed to fairly set forth the financial position and results of operations of the District as measured as measured by the financial activity of its various funds. The Financial Statements include information regarding certain funds of the District, including its General Fund, which are not pledged to make Payments or to otherwise pay debt service on the Bonds. Additionally, the District has not requested nor did the District obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the District. In addition, the Auditor has not reviewed this Official Statement.

TAX MATTERS

Federal Tax Status. In the opinion of The Weist Law Firm, Scotts Valley, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the “Code”) that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes “original issue premium” for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium is disregarded. Owners of Bonds with original issue discount or original issue premium, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to federal income tax and State of California personal income tax consequences of owning such Bonds.

California Tax Status. In the opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

Form of Bond Counsel Opinion. At the time of issuance of the Bonds, Bond Counsel expects to deliver a final approving opinion for the Bonds in substantially the form set forth in Appendix E.

Other Tax Considerations. Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above.

Changes in Federal and State Tax Law. From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value or liquidity of the Bonds. An example is the American Jobs Act of 2011 (S. 1549), proposed by the President and introduced in the Senate on September 13, 2011. If enacted as introduced, a provision of S. 1549 would limit the amount of exclusions (including tax-exempt interest) and deductions available to certain high income taxpayers for taxable years after 2012, and as a result could affect the market price or marketability of the Bonds. It cannot be predicted whether or in what

form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds or the market value thereof would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation, and their associated collateral tax consequences relating to the Bonds. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

Should interest on the Bonds (including any original issue discount) become includable in gross income for federal income tax purposes, the Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Indenture.

Circular 230 Disclosure. To ensure compliance with the requirements imposed by the Internal Revenue Service, purchasers and Owners of the Bonds should be aware that any federal income tax advice contained in this Official Statement (including the Appendices hereto) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Tax Code, or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed in this Official Statement.

CERTAIN LEGAL MATTERS

The Weist Law Firm, Bond Counsel, will render an opinion with respect to the validity of the Bonds, the form of which opinion is set forth in APPENDIX E. The Weist Law Firm is also serving as Disclosure Counsel. Payment of the fees and expenses of Bond Counsel and Disclosure Counsel are contingent upon the sale and issuance of the Bonds. Certain legal matters will be passed upon for the Authority and the District by the general counsel to the District.

CONTINUING DISCLOSURE

The District has covenanted in a Continuing Disclosure Certificate for the benefit of the Owners and beneficial owners of the Bonds to provide certain financial information and operating data relating to the District's Water and Wastewater Enterprises by not later than nine months following the end of the District's Fiscal Year (currently, the District's fiscal year ends on June 30) (the "Annual Report"), commencing with the report of Fiscal Year ending June 30, 2012, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by the District with each Nationally Recognized Municipal Securities Information Repository. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in "Appendix C – FORM OF CONTINUING DISCLOSURE CERTIFICATE," hereto. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b) (5) promulgated under the Securities Exchange Act of 1934, as amended.

LITIGATION

To the best knowledge of the Authority and the District, respectively, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the either the District or the Authority to restrain or enjoin the authorization, execution or delivery of the Bonds, the pledge of the Revenues or the collection of the payments to be made pursuant to the Indenture, the obligation of the District to pay Installment Payments from the Net Revenues made pursuant to either of the Installment Sale Agreements, or in any way contesting or affecting validity of the Bonds, the Indenture, the Installment Sale Agreements, or the agreement for the sale of the Bonds.

In addition, there is no litigation pending or threatened against the Authority, the District or the Irrigation District which, in the opinion of the legal counsel for the District, would materially adversely affect either the Water Enterprise or the Wastewater Enterprise or the sources of payment for the Bonds.

RATINGS

To come.

UNDERWRITING

The Bonds are being purchased by Kinsell, Newcomb & De Dios, Inc. (the “Underwriter”). The Underwriter has agreed to purchase the Bonds at a price of \$_____ (which price is equal to the \$_____ aggregate principal amount of the Bonds, less net Original Issue Discount of \$_____, and less Underwriter’s Discount of \$_____).

The Bond Purchase Contract pursuant to which the Underwriter has agreed to purchase the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Contract, including the approval of certain legal matters by counsel and certain other conditions.

The Underwriter intends to offer the Bonds to the public at the offering prices set forth on the cover page of this Official Statement. The Underwriter may offer and sell to certain dealers and others at a price lower than the offering prices stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

MISCELLANEOUS

So far as any statements made in this Official Statement involve matters of opinion, assumptions, projections, anticipated events or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and actual results may differ substantially from those set forth herein. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the Bonds. The summaries of certain provisions of the Bonds,

statutes and other documents or agreements referred to in this Official Statement do not purport to be complete, and interested parties must refer to each of them for a complete statement of their provisions. Copies are available for review by making requests to the District.

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement. The audited financial statements of the District (including financial statements of the District's Water Enterprise and Wastewater Enterprise), including a summary of significant accounting policies, for the Fiscal Year ended June 30, 2011 is contained in APPENDIX B. The execution of this Official Statement and its delivery have been authorized by the Authority and the District.

DISCOVERY BAY PUBLIC FINANCING AUTHORITY

By: _____

TOWN OF DISCOVERY BAY

By: _____

APPENDIX A
SUMMARY OF LEGAL DOCUMENTS

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE DISTRICT
FOR FISCAL YEAR ENDING JUNE 30, 2011**

APPENDIX C

FORM OF THE CONTINUING DISCLOSURE CERTIFICATE

\$ _____

DISCOVERY BAY PUBLIC FINANCING AUTHORITY
(Contra Costa County, California)
SERIES 2012 ENTERPRISE REVENUE BONDS
(Water and Wastewater Financing Projects)

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the Town of Discovery Bay, a California community services district (the “District”) in connection with the issuance of \$ _____ Discovery Bay Public Financing Authority, Series 2012 Enterprise Revenue Bonds (the “Bonds”) by the Discovery Bay Public Financing Authority (the “Authority”). The Bonds are being issued pursuant to an Indenture of Trust (the “Indenture”), dated as of August 1, 2012, by and between the Authority and _____ (the “Trustee”).

The Bonds are limited obligations of the Authority payable from the Revenues (defined herein) pledged under the Indenture, consisting primarily of (i) water installment payments (the “Water Installment Payments”) to be made by the District under a water installment sale agreement, dated as of August 1, 2012, by and between the Authority and the District (the “Water Installment Sale Agreement”), and (ii) wastewater installment payments (the “Wastewater Installment Payments,” and together with the Water Installment Payments, the “Installment Payments”) to be made by the District under a wastewater installment sale agreement, dated as of August 1, 2012, by and between the Authority and the District (the “Wastewater Installment Sale Agreement,” and together with the Water Installment Sale Agreement, the “Installment Sale Agreements”). The Water Installment Payments are secured by a pledge of and lien on the net revenues of the District’s municipal water enterprise (the “Water System”), and the Wastewater Installment Payments are secured by a pledge of and lien on the net revenues of the District’s municipal wastewater enterprise (the “Wastewater System”).

Pursuant to the Installment Sale Agreements, the District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

Section 2. Definitions. In addition to the definitions set forth in the Indenture or the Installment Sale Agreements, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms will have the following meanings:

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

“*Dissemination Agent*” will mean _____, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written

acceptance of such designation.

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

“MSRB” will mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive continuing disclosure filings pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB currently located at <http://emma.msrb.org>.

“Official Statement” will mean the final Official Statement, dated August __, 2012, prepared in connection with the sale and offering of the Bonds.

“*Participating Underwriter*” will mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

Section 3. Provision of Annual Reports.

(a) The District will, or will cause the Dissemination Agent to, not later than nine (9) months after the end of the District’s Fiscal Year, commencing with the report for the 2011-12 Fiscal Year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate, with a copy to the Trustee and the Participating Underwriter. Not later than fifteen (15) Business Days prior to said date, the District will provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent will contact the District to determine if the District is in compliance with the previous sentence. The Annual Report must be submitted in electronic format and accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the District’s Fiscal Year changes, it will give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District will send a notice to the MSRB, in an electronic format as prescribed by the MSRB, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent will (if the Dissemination Agent is other than the District) file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB pursuant to this Disclosure Certificate.

Section 4. Content of Annual Reports. The District's Annual Report will contain the following information:

(i) 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 Section 3(a), the Annual Report will contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements will be filed in the same manner as the Annual Report when they become available.

(ii) To the extent not contained in the audited financial statements filed pursuant to the preceding clause (a), the Annual Report will contain information with respect to the District's Water System showing:

(a) Annual water service structure and pricing, together with adopted rates in a format comparable to Table _ of the Official Statement for the prior Fiscal Year, if such information is not otherwise included elsewhere in the Annual Report;

(b) Largest ten users of the Water System, based on annual billings for the prior calendar year, if such information is not otherwise included elsewhere in the Annual Report;

(c) Any additional indebtedness incurred during the prior Fiscal Year which is payable from revenues of the Water System on a parity with the Bonds, if such information is not otherwise included elsewhere in the Annual Report; and

(d) An update of the information contained in Table _ under the heading "THE FINANCING PLAN – Water--Debt Service Coverage Projections for the Bonds" in the Official Statement for the Bonds, if such information is not otherwise included elsewhere in the Annual Report.

(iii) To the extent not contained in the audited financial statements filed pursuant to the preceding clause (a), the Annual Report will contain information with respect to the District's Wastewater System showing:

(a) Annual wastewater service structure and pricing, together with adopted rates in a format comparable to Table _ of the Official Statement for the prior Fiscal Year, if such information is not otherwise included elsewhere in the Annual Report;

(b) Largest ten users of the Wastewater System, based on annual billings for the prior calendar year, if such information is not otherwise included elsewhere in the Annual Report;

(c) Any additional indebtedness incurred during the prior Fiscal Year which is payable from revenues of the Wastewater System on a parity with the Bonds, if such information is not otherwise included elsewhere in the Annual Report; and

(d) An update of the information contained in Table _ under the heading “THE FINANCING PLAN – Wastewater--Debt Service Coverage Projections for the Bonds” in the Official Statement for the Bonds, if such information is not otherwise included elsewhere in the Annual Report.

Any or all of the items listed above may be included by specific reference to other documents, including Official Statements of debt issues of the District or related public entities, which have been submitted to MSRB. If the document included by reference is a final Official Statement, it must be available from the MSRB. The District will clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

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

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, 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 security, or other material events affecting the tax status of the security;
- (vii) Modifications to rights of security holders, if material;
- (viii) Optional, contingent or unscheduled bond calls, if material;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the Bonds, if material.
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of the District;
- (xii) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District will, or will cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The District acknowledges that the events described in subparagraphs (a)(ii), (a)(vii), (a)(viii) (if the event is a bond call), (a)(x), (a)(xiii), and (a)(xiv) of this Section 5 contain the qualifier “if material.” The District will cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the District determines the event’s occurrence is material for purposes of U.S. federal securities law.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate will be accompanied by identifying information as prescribed by the MSRB.

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

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent will be _____.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

The Dissemination Agent will agree to any amendment so requested by the District; provided neither the Trustee nor the Dissemination Agent will be obligated to enter into any amendment increasing or affecting its duties or obligations.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made will present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison will include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison will be quantitative. A notice of the change in the accounting principles will be sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

Section 10. Additional Information. Nothing in this Disclosure Certificate will be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District will have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate will not be deemed an Event of Default under the Indenture or any Supplemental Indenture or the Installment Sale Agreements, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate will be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent will have only duties as are specifically set forth in this Disclosure Certificate, 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 under the Indenture, 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 will survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Beneficiaries. This Disclosure Certificate will inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and will create no rights in any other person or entity.

Section 14. Future Determination of Obligated Persons. In the event that the Securities Exchange Commission amends, clarifies or supplements the Rule in such a manner that requires any landowner within the District to be an obligated person as defined in the Rule, nothing contained herein will be construed to require the District to meet the continuing disclosure requirements of the Rule with respect to such obligated person and nothing in this Disclosure Certificate will be deemed to obligate the District to disclose information concerning any owner of land within the District except as required as part of the information required to be disclosed by the District pursuant to Section 4 and Section 5 hereof.

Date: August __, 2012

TOWN OF DISCOVERY BAY

By: _____
General Manager

Accepted and Acknowledged:

_____, as
Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: Town of Discovery Bay

Name of Bond Issue: Discovery Bay Public Financing Authority
Series 2012 Enterprise Revenue Bonds
(the "Bonds").

Date of Issuance: August __, 2012

NOTICE IS HEREBY GIVEN that the Town of Discovery Bay, a California community services district (the "District") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated August __, 2012. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

TOWN OF DISCOVERY BAY

By _____

APPENDIX D

**GENERAL INFORMATION REGARDING THE DISTRICT
AND SURROUNDING AREA**

APPENDIX E
FORM OF OPINION OF BOND COUNSEL

APPENDIX F

INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM