



MARINA COAST WATER DISTRICT
Statement of Debt Management Policy

Section I. Introduction

Purpose and Overview

In its publication entitled Best Practice Debt Management Policy, the Government Finance Officers Association (GFOA) states that Debt management policies are written guidelines, allowances, and restrictions that guide debt issuance practices of Board adopted issuance processes, management of a debt portfolio, and adherence to state and federal laws and regulations. A debt management policy should improve the quality of decisions, and articulate policy goals, provide guidelines for the structure of debt issuance, and demonstrate a commitment to long-term capital financial planning. The Marina Coast Water District Debt Management Policy as set forth herein provides a set of comprehensive guidelines for the issuance and management of District's debt portfolio. Adherence to the policy is essential to ensure the District maintains a diversified debt portfolio that supports the District's financing needs and minimizes the District's cost of funds. The Board may waive any of the provisions of this policy.

Roles and Responsibilities

Director of Administrative Services – The primary responsibility for debt management rests with the Director of Administrative Services. The Director of Administrative Services shall:

- Provide for the issuance of District debt at the lowest possible cost and risk;
- Determine the available debt capacity of the District;
- Provide for the issuance of District debt at appropriate intervals and in reasonable amounts as required to fund approved capital expenditures;
- Recommend to the District's Board of Directors (Board) the method and manner of sale of District debt;
- Monitor opportunities to refund debt and recommend such refunding as appropriate to reduce costs or to achieve other policy objectives;
- Comply with all Internal Revenue Service ("IRS"), Municipal Securities Rulemaking Board (MSRB), and Securities and Exchange Commission ("SEC") rules and regulations governing the issuance of debt;
- Maintain a current database with all outstanding debt;
- Provide for the timely payment of principal and interest on all debt;
- Comply with all terms and conditions, and disclosure required by the legal documents governing the debt issued;
- Submit to the Board all recommendations to issue debt in accordance;
- Distribute to appropriate repositories information regarding the District's financial condition and affairs at such times and in the form required by law, regulation and general practice;
- Provide for the frequent distribution of pertinent information to the rating agencies; and
- Apply and promote prudent fiscal practices.
- To ensure that proceeds of any debt issued in accordance with its governing documents and this Policy no disbursements shall be made without the approval of the Director of Administrative Services and General Manager. The draw request shall be provided to the District by the project



MARINA COAST WATER DISTRICT
Statement of Debt Management Policy

engineer with the consent of the District’s inspector. Approval shall only be provided when the Director of Administrative Services is in receipt of an appropriate certification from the construction project manager with supporting invoices from suppliers and / or contractors evidencing appropriate expenses in connection with the project.

- In the case of an issue of bonds the proceeds of which will be used by a governmental entity other than the District, the District may rely upon a certification by such other governmental entity that it has adopted the policies described in SB 1029.

Section II. Legal Governing Principles

In the issuance and management of debt, the District shall comply with all legal constraints and conditions imposed by federal, state and local law. The following section highlights the key governing documents and certain debt limitations.

Governing Law

County Water District Law – The District is a county water district created in 1960 under the County Water District Law (The Law). The Law establishes the District to contract, construct works, fix rates and charges for commodities or services furnished and by legal authority to incur indebtedness. The District shall comply with all constraints of the Law.

Federal Tax Law – The District shall issue and manage debt in accordance with the limitations and constraints imposed by federal tax law, to maximize its ability to sell tax-exempt debt. Such constraints include, but are not limited to, private activity tests, review of eligible projects, spend-down tests, and arbitrage rebate limitations.

Securities Law – The District shall comply with the requirements of federal and state securities laws in offering District debt and the District shall comply with securities law requirements in providing ongoing disclosure to the securities markets.

Governing Legal Documents

Indenture – The District’s debt issuance is further governed in part by the Indenture of Trust, adopted June 4, 2015 of which constitutes the “Indenture.” The Indenture establishes the basic security structure of debt issued by the District that is secured by Net Water Revenues. Key terms and conditions include, but are not limited to, the definition of pledged revenues, the rate covenant and the additional bonds test. A copy of the Indenture can be found in Appendix A. The District shall comply with all limitations imposed under the Indenture, so long as such Indenture is in full force and effect.

Permitted Debt by Type

The District may legally issue both short-term and long-term debt, using the debt instruments described below. The Director of Administrative Services, in consultation with the District’s General Counsel, Bond Counsel, and Financial Advisor shall determine the most appropriate instrument for a proposed bond sale.



MARINA COAST WATER DISTRICT
Statement of Debt Management Policy

General Obligation Bonds – The District is empowered, under California law, to levy taxes on all taxable property within its boundaries for the purpose of paying its voter-approved general obligation bonds and, subject to certain limitations.

Certificates of Participation – Certificates of Participation (COP) provide debt financing through a lease, installment sale agreement or contract of indebtedness and typically do not require voter approval. Board action is sufficient to legally authorize a COP issue. The District shall pledge net revenues to the repayment of its COPs, under the terms and conditions specified in the Indenture.

JPA Revenue Bonds – As an alternative to COPs, the District may obtain financing through the issuance of Debt by a joint exercise of powers agency with such Debt payable from amounts paid by the District under a lease, installment sale agreement, or contract of indebtedness.

Lines of Credit - The District may enter into financing arrangements providing for a source of funds that can be readily accessed by the District for capital or operational needs. Board action is sufficient to legally authorize the establishment of a line of credit. Voter approval is not required to establish or access a line of credit.

Commercial Paper – The District may issue short-term revenue certificates, including commercial paper and extendable commercial paper. Board action is sufficient to legally authorize a commercial paper issue. The District’s commercial paper is secured by net revenues. Voter approval is not required to issue commercial paper.

Variable Rate Debt – The District is authorized to issue variable rate debt including, but not limited to, public market indexed notes, indexed notes or loans placed directly with financial institutions and other alternative variable rate and market access products as well as traditional variable rate demand obligations backed by bank liquidity facilities. Prior to the issuance of variable rate debt, the savings and other possible advantages compared to a fixed rate borrowing will be evaluated and a comparative analysis presented to the Board of Directors as part of the approval process.

Refunding Revenue Bonds – The District is authorized to issue refunding revenue bonds to refund outstanding District indebtedness pursuant to the State of California local agency refunding revenue bond law (Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California).

Loans – The District is authorized to enter into loans, installment payment obligations, or other similar funding structures secured by a prudent source, or sources of repayment.

Assessment Bonds – The District is authorized to issue assessment bonds pursuant to the Improvement Bond Act of 1915, subject to requirements imposed by Proposition 218. Such bonds are typically repaid from assessments collected within an assessment district formed pursuant to the Municipal Improvement Act of 1913. Assessments are levies of charges on real property to pay for projects or services that specifically benefit that parcel of property.

Special Tax Bonds – The District may take appropriate steps to form a community facilities district to issue special tax bonds pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1, Division 2, and Title 5 of the Government Code of the State of California.



MARINA COAST WATER DISTRICT
Statement of Debt Management Policy

Limitations on Debt Issuance

Short-Term Debt – The District’s short-term debt shall not exceed 30 percent of its total debt at the time of issuance. The calculation of short-term debt shall include variable rate demand obligations, the authorized amount of commercial paper, any notes/bonds with a maturity equal to or less than five years, and any variable rate debt.

Subordinate Lien Long-Term Debt - The District’s subordinate lien debt, for which net revenues are pledged, shall be limited to that amount for which current and projected revenues generate overall debt service coverage of at least 110 percent.

Senior Lien Long-Term Debt – The District’s senior lien long-term debt, for which net revenues are pledged, shall be limited to that amount for which current and projected revenues generate a senior lien debt service coverage of at least 125 percent. The calculation of debt service shall not include General Obligation Bonds, Assessment Bonds, or Special Tax Bonds to which revenue sources other than pledged revenues, as defined in the Indenture, are pledged. It should be noted that the District will issue debt to attempt to meet the senior lien debt service coverage target of 170 percent in keeping with its prudent financial management practices and to maintain credit ratings aligned with rating agency methodologies.

Purpose for Borrowing

The District shall issue debt solely for the purpose of financing the cost of design, acquisition, and/or construction of water and wastewater system improvements in furtherance of the District’s Capital Improvement Program (“CIP”).

Ethical Standards Governing Conduct

Members of the District, the Board and its consultants, service providers, and underwriters shall adhere to standards of conduct as stipulated by the California Political Reform Act, as applicable. All debt financing participants shall maintain the highest standards of professional conduct at all times, in accordance with:

- MSRB Rules, including Rule G-37, shall be followed at all times;
- Debt financing participants will assist the District staff in achieving its goals and objectives as defined in this Debt Management Policy; and
- All debt financing participants shall make cooperation with the District staff their highest priority.

Section III. Integration of Capital Planning and Debt Activities

Evaluating Capital Improvement Program Spending

The District shall develop and maintain a capital finance model to evaluate the impact of capital program spending, operations and maintenance costs, and debt service on its financial condition.



MARINA COAST WATER DISTRICT
Statement of Debt Management Policy

To that end, the Director of Administrative Services shall oversee the ongoing maintenance of quantitative modeling that includes, but is not limited to, the following:

- Historic and projected cash flows;
- Historic and projected capital expenditures;
- Historic and projected operating costs;
- Historic and projected fund balances, including the Operating Fund, the Rate Stabilization Fund, Pay-As-You-Go Fund, Debt Proceeds Fund, and Debt Service Reserve Fund, if any,
- Historic and projected debt service coverage;
- The most efficient mix of funding sources (long-term debt; short-term debt, and cash);
- Projected revenue requirements; and
- Projected rates and charges.

Section IV. Procurement and Evaluation of Professional Services

Appointment of Service Providers – The Director of Administrative Services will solicit from time to time bids, quotes or proposals for the following services on an as needed basis:

- Financial Advisor – Service provider that ensures the District complies with all financial management procedures and policies and ensures successful closing for bond transactions.
- Bond Counsel – Service provider that drafts appropriate documentation to ensure successful and timely closing and create valid and legally binding security for bond issues, and provide appropriate advice and taking appropriate actions to ensure legal validity of bond issues under state and federal laws as applicable.

Section V. Transaction-Specific Policies

Method of Sale

Unless otherwise justified and deemed necessary to use a competitive bid to minimize the costs and risks of the District's bond issue, the issuance and sale of all fixed rate District debt shall be achieved by negotiated bid.

Competitive Bid Method - When necessary to minimize the costs and risks of any District borrowing, the Director of Administrative Services may submit to the Board a request to sell bonds on a competitive basis. Such bids may take the form of hand-delivered or electronically transmitted offers to purchase the bonds. Any competitive sale of District debt will require approval of the Board. District debt issued on a competitive bid basis will be sold to the bidder proposing the lowest true interest cost to the District provided the bid conforms to the official notice of sale.



MARINA COAST WATER DISTRICT Statement of Debt Management Policy

Negotiated Bid Method – A negotiated bond issue will provide for the sale of debt by negotiating the terms and conditions of the sale, including price, interest rates, credit facilities, underwriter or remarketing fees, and commissions. Examples of such sales include:

- Variable rate demand obligations;
- An issue of debt so large that the number of potential bidders would be too limited to provide the District with truly competitive bids;
- An issue requiring the ability to react quickly to sudden changes in interest rates (e.g. refunding bonds);
- An issue requiring intensive marketing efforts to establish investor acceptance;
- An issue of debt with specialized distribution requirements; and
- An issue of debt sold during a period of extreme market disruption or volatility.

If bonds are sold on a negotiated basis, the negotiations of terms and conditions shall include, but not be limited to, prices, interest rates, underwriting or remarketing fees, and underwriting spreads. The District, with the assistance of its Financial Advisor, shall evaluate the terms offered by the underwriting team. Guidelines with respect to price, interest rates, fees, and underwriting spreads shall be based on prevailing terms and conditions in the marketplace for comparable issuers.

If more than one underwriter is included in the negotiated sale of debt, the District shall establish appropriate levels of liability, participation and priority of orders. Such levels shall be based upon District policy with regards to the underwriting responsibility among the team members, the desired allocation of total fees, and the desired distribution of bonds. Guidelines for establishing liability, participation, and priority of orders shall be based on prevailing terms and conditions in the marketplace for comparable issuers.

The District shall, with the assistance of its Financial Advisor, oversee the bond allocation process. The bond allocation process shall be managed by the lead underwriter, with the following requirements:

- The bonds are allocated fairly among members of the underwriting team, consistent with the previously negotiated terms and conditions;
- The allocation process complies with all MSRB regulations governing order priorities and allocations;
- The lead underwriter shall submit to the Director of Administrative Services a complete and timely account of all orders, allocations, and underwriting activities with the investor names identified as appropriate.

The Director of Administrative Services shall require a post-sale analysis and reporting for each negotiated bond sale. The Financial Advisor or the lead underwriter may perform such analysis. A post-sale analysis will include, but not be limited to:

- Summary of the pricing, including copies of the actual pricing wires;
- Results of comparable bond sales in the market at the time of the District's pricing;
- Detailed information on orders and allocation of bonds, by underwriting firm;
- Detailed information on final designations earned by each underwriter; and
- Summary of total compensation received by each underwriter.



MARINA COAST WATER DISTRICT
Statement of Debt Management Policy

Structural Elements

Pledge of Revenues – The District’s pledge of revenues shall be determined for each debt issue depending upon the debt instrument:

- *General Obligation Bonds* of the District shall be repaid from voter-approved property taxes on property within the jurisdiction of the District.
- *Certificates of Participation* of the District shall be repaid from net revenues, as defined in the Indenture.
- *Revenue Bonds* of the District shall be repaid from net revenues, as defined in the Indenture.
- *Assessment Bonds* of the District shall be repaid levies or charges collected within an assessment district formed by the District pursuant to the Municipal Improvement Act of 1913.
- *Special Tax Bonds* shall be payable from net special taxes collected in applicable taxing jurisdiction as a result of the levy of special taxes.

Maturity – The District may issue tax-exempt debt with an average life no greater than or equal to the 125% average life of the assets being financed. The final maturity of the debt should be no longer than 40 years. Factors to be considered when determining the final maturity of debt include: the average useful life of the assets being financed, relative level of interest rates, intergenerational equity and the year-to-year differential in interest rates.

Maturity Structure – The District’s long-term debt may include serial and term bonds. Other maturity structures may also be considered if they are consistent with prudent financial management practices.

Coupon Structure – Debt may include par, discount and premium. Discount and premium bonds must be demonstrated to be advantageous relative to par bond structures taking into consideration market conditions and opportunities. For variable rate debt, the variable rate may be based on one of a number of commonly used interest rate indices and the index will be determined at the time of pricing.

Debt Service Structure – Debt service may be structured primarily on an approximate level (combined annual principal and interest) basis. Certain individual bond issues, such as refunding bonds, may have debt service that is not level. However, on an aggregate basis, debt service should be structured primarily on a level basis.

Redemption Features – In order to preserve flexibility and refinancing opportunities, District debt will generally be issued with call provisions. The District may consider calls that are shorter than traditional and/or non-call debt when warranted by market conditions and opportunities. For each transaction, the District will evaluate the efficiency of call provision alternatives.

Credit Enhancement – The District shall competitively procure credit enhancement for a sale of bonds if the Director of Administrative Services, in consultation with the Financial Advisor and the underwriters, determines that it is cost effective to do so.

Senior/Subordinate Lien – The District shall utilize both a senior and a subordinate lien structure. The choice of lien will be determined based on such factors as overall cost of debt, impact on debt service, impact on water and wastewater rates, and marketing considerations.



MARINA COAST WATER DISTRICT
Statement of Debt Management Policy

Debt Service Reserve Funds – The District shall provide for debt service reserve funds to secure District debt when necessary.

Section VI. Communication and Disclosure

Rating Agencies

The District shall maintain its strong ratings through prudent fiscal management and consistent communications with the rating analysts. The Director of Administrative Services shall manage relationships with the rating analysts assigned to the District's credit, using both informal and formal methods to disseminate information. Communication with the rating agencies may include one or more of the following:

- Full disclosure on an annual basis of the financial condition of the District;
- A formal presentation, at least annually or as becomes necessary to the rating agencies, covering economic, financial, operational, and other issues that impact the District's credit;
- Timely disclosure of major financial events that impact the District's credit;
- Timely dissemination of the Comprehensive Annual Financial Report, following its acceptance by the District's Board;
- Full and timely distribution of any documents pertaining to the sale of bonds; and
- Periodic tours of the water and wastewater system operations, as appropriate.

Bond Insurers

The Director of Administrative Services shall manage relationships with the bond insurers, to the extent any Debt is so insured, by providing appropriate information. Communication with other bond insurers shall be undertaken when the Director of Administrative Services, with the assistance of the District's Financial Advisor, determines that credit enhancement is cost effective for a proposed bond issue.

Disclosure Reports – The District shall make disclosure reports readily available to institutional investors, rating agencies and credit enhancers who have specific analysts assigned to review the District's credit.

Web Site – The District shall use its website as a tool for providing timely information to investors.

Section VII. Refunding Policies

The District shall strive to refinance debt to maximize savings and minimize the cost of funds as market opportunities arise. A net present value analysis will be prepared that identifies the economic effects of any refunding to be proposed to the Board. The District shall target a 3% net present value savings for current and 4% for advanced refunding transactions. Upon the advice of the Director of Administrative Services, with the assistance of the Financial Advisor and Bond Counsel, the District will consider undertaking refundings for other than economic purposes, such as to restructure debt, change the type of debt instruments being used, or to retire a bond issue and indenture in order to remove undesirable covenants.



MARINA COAST WATER DISTRICT
Statement of Debt Management Policy

Savings Thresholds – Minimum savings thresholds have been established to help guide the economic analysis of refunding bonds. The minimum savings guidelines are applicable on a maturity-by-maturity basis and are expressed as a percentage of refunded bond par calculated by dividing the expected net present value savings generated by the proposed refunding by the par amount of refunded bonds. At the recommendation of the Director of Administrative Services, with the assistance of the Financial Advisor, the District may complete a refunding for net present values savings equal to the target specified above on an aggregate bond issue basis rather than a maturity by maturity basis. Generally, the District shall only refund bonds to generate debt service savings if the specified minimum savings set forth in the previous paragraph can be achieved.

Coupon on Refunded Bond – The Director of Administrative Services may take into consideration whether the coupon on the refunded bond is significantly higher or lower than the most common outstanding bond coupons of approximately five percent.

General Interest Rate Environment – The Director of Administrative Services may take into consideration whether the available refunding bond interest rates are generally high or generally low relative to long-term averages of historical rates.

General Interest Rate Outlook – The Director of Administrative Services may take into consideration the general outlook for future interest rates, as derived from economic forecasts, market forecasts, implied forward rates, or other sources.

Debt Management Considerations – The Director of Administrative Services may take into consideration debt management issues such as cost and staff efficiencies associated with combining multiple refunding bond issues or combining refunding and new money bond issues.

Call Date – The Director of Administrative Services may take into consideration the amount of time between the pricing/closing date of the refunding Debt and the call date of the Debt to be refunded.

Final Maturity Date – The Director of Administrative Services may take into consideration the amount of time remaining until the final maturity of the Debt to be refunded.

Section VIII. Reinvestment of Proceeds

General – The District shall comply with all applicable Federal, State, and contractual restrictions regarding the use and investment of bond proceeds. This includes compliance with restrictions on the types of investment securities allowed, restrictions on the allowable yield of some invested funds, as well as restrictions on the time period during over which some bond proceeds may be invested. To the extent that a bond issue is credit enhanced, the District shall adhere to the investment guidelines of the credit enhancement provider.

Requirements of Indenture – The District will comply with all terms and conditions of the appropriate legal documents related to the Debt. Such limitations shall include, but not be limited to Investments in the Indenture.



MARINA COAST WATER DISTRICT
Statement of Debt Management Policy

Section IX. Creation and Maintenance of Funds

The District maintains a number of different funds integral to the long-range financial planning process. Each of these funds is held for a specific purpose and can generally be categorized as either an operating, capital or debt reserve fund. The District will comply with all requirements and limitations created under its Reserve Policy.

Section X. Compliance

Arbitrage Liability Management

The District shall minimize the cost of arbitrage rebate and yield restrictions while strictly complying with tax law. Because of the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the District shall solicit the advice of bond counsel and other qualified experts about arbitrage rebate calculations. The District shall contract with a qualified third-party for preparation of the arbitrage rebate calculation.

The District shall maintain an internal system for tracking expenditure of bond proceeds and investment earnings. The expenditure of bond proceeds shall be tracked in the financial accounting system by issue. Investment may be pooled for financial accounting purposes and for investment purposes. When investment of bond proceeds are co-mingled with other investments, the District shall adhere to IRS rules on accounting allocations.

Post-Issuance Tax Compliance

The District has adopted Written Procedures to Ensure Compliance with Requirements for Tax-Exempt Bonds. The District shall comply with such procedures to maintain the tax-exempt status of District debt obligations or to maintain eligibility for direct pay subsidy payments, as applicable.

Continuing Disclosure

The District shall comply with the requirements of each Continuing Disclosure Certificate entered into at the time of a sale of bonds. Annual information provided by the District shall mirror the information in any District Official Statement at the time of a primary offering. Annual financial information will be sent by the District or its designated consultant, within [270] days of fiscal year end, to all Nationally Recognized Municipal Information Depositories (NRMSIRs) designated by the SEC and to the State Information Depository (SID), if one exists. This shall include:

- Comprehensive Annual Financial Report of the District; and
- Updated tables from the Official Statement, as detailed in the Continuing Disclosure Certificate.

In addition to annual disclosure, the District shall provide ongoing information about certain enumerated events, as defined by regulation, to the NRMSIRs and to the SID.

The District shall engage a firm to assist it in ensuring timely completion and filing of annual reports and in identifying, and making timely filings with respect to, the occurrence of reportable enumerated events.



MARINA COAST WATER DISTRICT
Statement of Debt Management Policy

Legal Covenants

The District shall comply with all covenants and conditions contained in governing law and any legal documents entered into at the time of a bond offering.

Section XI. Debt Database Management

The District shall maintain complete information on its outstanding debt portfolio, in a spreadsheet or database program format. The information in the database shall include, but not be limited to, the following:

- Issue Name
- Initial Issue Par Amount
- Dated Date of the Issue
- Principal Maturity Amounts
- Coupon Rate by Maturity
- Amount Outstanding
- Call Provisions
- Purpose of the Issue
- Credit Enhancer, if any
- Competitive or Negotiated Sale
- Names of Underwriting Team Members

The District shall use the debt database for the following purposes:

- Generate reports
- Gross annual debt service
- Net annual debt service
- Refunding Analyses
- Output to Fund Accounting System

APPENDIX A
Indenture of Trust

INDENTURE OF TRUST

between the

MARINA COAST WATER DISTRICT

and

MUFG UNION BANK, N.A.,
as Trustee

Dated as of July 1, 2015

Relating to

\$29,840,000
Marina Coast Water District
2015 Senior Lien
Enterprise Revenue Refunding Bonds,
Tax-Exempt Series A

\$1,115,000
Marina Coast Water District
2015 Senior Lien
Enterprise Revenue Refunding Bonds,
Federally Taxable Series B

INDENTURE OF TRUST

This INDENTURE OF TRUST, dated as of July 1, 2015 (this “Indenture”), is between the MARINA COAST WATER DISTRICT, a county water district organized and existing under the laws of the State of California (the “District”), and MUFG UNION BANK, N.A., a national banking association organized and existing under the laws of the United States of America, as trustee (the “Trustee”).

B A C K G R O U N D :

1. The District owns and operates facilities and property for the supply, treatment and distribution of water (the “Water Enterprise”) and the collection, treatment and disposal of wastewater within the service area of the District (the “Wastewater Enterprise”).

2. In order to finance the construction of various improvements to the Water Enterprise and the Wastewater Enterprise (collectively, the “Enterprises”), the District has previously entered into an Installment Sale Agreement dated as of August 1, 2006 (the “2006 Installment Sale Agreement”), between the District and the Public Property Financing Corporation of California (the “Financing Corporation”), under which the District is obligated to pay semiannual installment payments (the “2006 Installment Payments”) which are secured by a pledge of and lien on the net revenues of the Enterprises (the “Net Revenues”).

3. Under the 2006 Installment Sale Agreement, the 2006 Installment Payments are subject to prepayment in whole or in part on any date on or after June 1, 2016, and such prepayments will be applied to pay and prepay the outstanding Enterprise Revenue Certificates of Participation, Series 2006, which have been executed and delivered in the aggregate original principal amount of \$42,310,000 (the “2006 Certificates”) under a Trust Agreement dated as of August 1, 2006 (the “2006 Trust Agreement”), among the District, the Financing Corporation and Union Bank, N.A., as trustee.

4. In order to provide funds to refund the 2006 Installment Payments and the 2006 Certificates, and thereby realize debt service savings to the District, the Board of Directors of the District has authorized the issuance of 2015 Senior Lien Enterprise Revenue Refunding Bonds of the District in the aggregate principal amount of \$30,995,000 (the “Bonds”), under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code.

5. The Bonds will be issued in two series, consisting of a tax-exempt series in the aggregate principal amount of \$29,840,000 and a federally taxable series in the aggregate principal amount of \$1,115,000.

6. The Bonds will be secured by a pledge of and lien on the Net Revenues on a basis which is senior to the outstanding \$8,495,000 aggregate principal amount of Marina Coast Water District 2010 Subordinate Enterprise Revenue Refunding Bonds

(the “2010 Bonds”), which have been issued by the District under an Indenture of Trust dated as of December 1, 2010, between the District and Union Bank, N.A., as trustee.

7. In order to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and secured and to secure the payment of the principal thereof and of the interest and premium, if any, thereon, the Board of Directors of the District has authorized the execution of this Indenture.

A G R E E M E N T :

In order to secure the payment of the principal of and the interest and redemption premium (if any) on all the Bonds under this Indenture according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the Owners thereof, and for other valuable considerations, the receipt of which is hereby acknowledged, the District and the Trustee hereby covenant and agree with one another, for the benefit of the respective Owners from time to time of the Bonds, as follows:

ARTICLE I

DEFINITIONS; RULES OF CONSTRUCTION

SECTION 1.01. *Definitions.* Unless the context clearly otherwise requires or unless otherwise defined herein, the capitalized terms defined in Appendix A attached to this Indenture have the respective meanings specified in Appendix A when used in this Indenture.

SECTION 1.02. *Authorization.* Each of the parties hereby represents and warrants that it has full legal authority and is duly empowered to enter into this Indenture, and has taken all actions necessary to authorize the execution hereof by the officers and persons signing it.

SECTION 1.03. *Interpretation.*

(a) Unless the context otherwise indicates, words expressed in the singular include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and do not affect the meaning, construction or effect hereof.

(c) All references herein to “Articles,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; the words “herein,”

“hereof,” “hereby,” “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

ARTICLE II

ISSUANCE OF BONDS

SECTION 2.01. *Authorization and Purpose of Bonds.* The District has reviewed all proceedings heretofore taken and has found, as a result of such review, and hereby finds and determines that all things, conditions and acts required by law to exist, happen or be performed precedent to and in connection with the issuance of the Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and the District is now duly empowered, under each and every requirement of law, to issue the Bonds in the manner and form provided in this Indenture.

The District hereby authorizes the issuance of Bonds in the aggregate principal amount of \$30,955,000 under the Refunding Bond Law for the purposes of providing funds to prepay and advance refund the 2006 Installment Payments and the 2006 Certificates in full. The Bonds are authorized and issued under, and are subject to the terms of, this Indenture and the Refunding Bond Law.

The Bonds shall be issued in two series, consisting of the Series A Bonds and the Series B Bonds. The Series A Bonds shall be designated the “Marina Coast Water District 2015 Senior Lien Enterprise Revenue Refunding Bonds, Tax-Exempt Series A” and shall be issued in the aggregate principal amount of \$29,840,000. The Series B Bonds shall be designated the “Marina Coast Water District 2015 Senior Lien Enterprise Revenue Refunding Bonds, Federally Taxable Series B” and shall be issued in the aggregate principal amount of \$1,115,000.

SECTION 2.02. *Terms of the Bonds.* The Bonds are issuable in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof, so long as no Bond has more than one maturity date. The Series A Bonds will be dated as of the Closing Date, and will mature on June 1 in the years and in the respective principal amounts and bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) at the respective rates per annum, as set forth in the following table:

Series A Bonds

<u>Maturity Date</u> <u>(June 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2017	\$ 905,000	3.000%
2018	930,000	3.000
2019	960,000	4.000
2020	995,000	4.000
2021	1,035,000	5.000
2022	1,090,000	4.000
2023	1,130,000	5.000
2024	1,190,000	4.000
2025	1,235,000	5.000
2026	1,300,000	5.000
2027	1,365,000	5.000
2028	1,430,000	5.000
2029	1,500,000	5.000
2030	1,575,000	5.000
2031	1,655,000	5.000
2032	1,740,000	3.750
2033	1,805,000	3.750
2034	1,870,000	3.875
2035	1,945,000	5.000
2037	4,185,000	5.000

The Series B Bonds will be dated as of the Closing Date, and will mature on June 1, 2016. The Series B Bonds will bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) at the rate of 5.00% per annum.

Interest on the Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless

- (a) a Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date,
- (b) a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the Closing Date, or
- (c) interest on any Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Interest is payable on each Interest Payment Date to the persons in whose names the ownership of the Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any Bond which is not punctually paid or duly provided for on any Interest Payment Date is payable to the person in whose name the ownership of such Bond is registered on the Registration Books at the close of business on a special record date

for the payment of such defaulted interest to be fixed by the Trustee, notice of which is given to such Owner by first-class mail not less than 10 days prior to such special record date.

The Trustee will pay interest on the Bonds by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. At the written request of the Owner of Bonds in an aggregate principal amount of at least \$1,000,000, which written request is on file with the Trustee as of any Record Date, the Trustee will pay interest on such Bonds on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account of a financial institution within the United States of America as specified in such written request, which written request will remain in effect until rescinded in writing by the Owner. The Trustee will pay principal of the Bonds in lawful money of the United States of America by check of the Trustee upon presentation and surrender thereof at the Office of the Trustee.

SECTION 2.03. *Redemption of Bonds.*

(a) Optional Redemption. The Series A Bonds maturing on or before June 1, 2025, are not subject to redemption prior to maturity. The Series A Bonds maturing on or after June 1, 2026, are subject to redemption prior to maturity, at the option of the District, in whole or in part among maturities on such basis as designated by the District and by lot within a maturity, from any available source of funds, on June 1, 2025, and on any date thereafter, at a redemption price equal to 100% of the principal amount of Series A Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

The District shall give the Trustee written notice of its intention to redeem Series A Bonds under this subsection (a), and the manner of selecting such Series A Bonds for redemption from among the maturities thereof and the amount of the redemption premium thereon, in sufficient time to enable the Trustee to give notice of such redemption in accordance with subsection (c) of this Section.

The Series B Bonds are not subject to redemption prior to maturity.

(b) Mandatory Sinking Fund Redemption. The Term Bonds are subject to mandatory redemption in part by lot, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts and on June 1 in the respective years as set forth in the following table; *provided, however,* that if some but not all of such Term Bonds have been redeemed under subsection (a) of this Section, the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of the Term Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of \$5,000 (as set forth in a schedule provided by the District to the Trustee).

**Mandatory Sinking Fund Redemption of
Term Bonds Maturing June 1, 2037**

Sinking Fund Redemption Date (June 1)	Principal Amount To Be Redeemed
2036	\$ 2,040,000
2037 (Maturity)	2,145,000

(c) Notice of Redemption. The Trustee on behalf and at the expense of the District shall mail (by first class mail) notice of any redemption to the respective Owners of any Series A Bonds designated for redemption at their respective addresses appearing on the Registration Books, at least 30 but not more than 60 days prior to the date fixed for redemption; *provided, however*, that neither failure to receive any such notice so mailed nor any defect therein will affect the validity of the proceedings for the redemption of such Series A Bonds or the cessation of the accrual of interest thereon. Such notice shall state 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 Series A Bonds of such maturity or maturities in whole) of the Series A Bonds to be redeemed, and shall require that such Series A Bonds be then surrendered at the Office of the Trustee identified in such notice for redemption at the redemption price, giving notice also that further interest on such Series A Bonds will not accrue from and after the redemption date.

(d) Right to Rescind Notice of Redemption. The District has the right to rescind any notice of the optional redemption of Series A Bonds under subsection (a) of this Section by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption shall 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 Series A Bonds then called for redemption. The District and the Trustee shall have no liability to the Series A Bond Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption to the respective Owners of the Series A Bonds designated for redemption, at their addresses appearing on the Registration Books.

(e) Partial Redemption of Individual Maturity of Bonds. Whenever provision is made in this Section for the redemption of less than all of the Series A Bonds of a particular maturity, the Trustee shall select the Series A Bonds of such maturity to be redeemed by lot in any manner which the Trustee in its sole discretion deems appropriate. For purposes of such selection, all Bonds will be deemed to be comprised of separate \$5,000 denominations and such separate denominations will be treated as separate Series A Bonds which may be separately redeemed.

(f) Partial Redemption of Individual Bond. If only a portion of any Series A Bond is called for redemption, then upon surrender of such Bond the District shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the District, a new Series A 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 to be redeemed.

(g) Effect of Redemption. From and after the date fixed for redemption, if notice of redemption has been duly mailed and funds available for the payment of the principal of and interest (and premium, if any) on the Series A Bonds so called for redemption have been duly provided, such Series A Bonds so called shall cease to be entitled to any benefit under this Indenture other than the right to receive payment of the redemption price, and no interest shall accrue thereon from and after the redemption date specified in such notice. Unless otherwise directed in writing by the District, the Trustee shall cancel and destroy all Series A Bonds redeemed under this Section.

SECTION 2.04. *Book Entry System.*

(a) Original Delivery. The Bonds will be initially delivered in the form of a separate single fully registered bond (which may be typewritten) for each maturity of the Bonds. Upon initial delivery, the Trustee shall register the ownership of each Bond on the Registration Books in the name of the Nominee. Except as provided in subsection (c), the ownership of all of the Outstanding Bonds shall be registered in the name of the Nominee on the Registration Books.

With respect to Bonds the ownership of which shall be registered in the name of the Nominee, the District and the Trustee has no responsibility or obligation to any Depository System Participant or to any person on behalf of which the Nominee holds an interest in the Bonds. Without limiting the generality of the immediately preceding sentence, the District and the Trustee has no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Depository System Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any notice with respect to the Bonds, including any notice of redemption, (iii) the selection by the Depository of the beneficial interests in the Bonds to be redeemed if the District elects to redeem the Bonds in part, (iv) the payment to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any amount with respect to principal, premium, if any, or interest on the Bonds or (v) any consent given or other action taken by the Depository as Owner of the Bonds. The District and the Trustee may treat and consider the person in whose name each Bond is registered as the absolute owner of such Bond for the purpose of payment of principal of and premium, if any, and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers of ownership of such Bond, and for all other purposes whatsoever. The Trustee shall pay the principal of and the interest and premium, if any, on the Bonds only to the respective Owners or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge all obligations with respect to payment of principal of and interest and premium, if any, on the Bonds to the extent of the sum or sums so paid. No person other than a Bond Owner shall receive a Bond evidencing the obligation of the District to make payments of principal, interest and premium, if any, under this Indenture. Upon delivery by the Depository to the District of written notice to the effect that the Depository has determined to substitute a new Nominee in its place, and subject to the provisions herein with respect to Record Dates, such new nominee shall become the Nominee hereunder for all purposes; and upon receipt of such a notice the District shall promptly deliver a copy of the same to the Trustee.

(b) Representation Letter. In order to qualify the Bonds for the Depository's book-entry system, the District shall execute and deliver to such Depository a letter representing such matters as shall be necessary to so qualify the Bonds. The execution and delivery of such letter shall not in any way limit the provisions of subsection (a) above or in any other way impose upon the District or the Trustee any obligation whatsoever with respect to persons having interests in the Bonds other than the Bond Owners. Upon the written acceptance by the Trustee, the Trustee shall agree to take all action reasonably necessary for all representations of the Trustee in such letter with respect to the Trustee to at all times be complied with. In addition to the execution and delivery of such letter, the District may take any other actions, not inconsistent with this Indenture, to qualify the Bonds for the Depository's book-entry program.

(c) Transfers Outside Book-Entry System. If either (i) the Depository determines not to continue to act as Depository for the Bonds, or (ii) the District determines to terminate the Depository as such, then the District shall thereupon discontinue the book-entry system with such Depository. In such event, the Depository shall cooperate with the District and the Trustee in the issuance of replacement Bonds by providing the Trustee with a list showing the interests of the Depository System Participants in the Bonds, and by surrendering the Bonds, registered in the name of the Nominee, to the Trustee on or before the date such replacement Bonds are to be issued. The Depository, by accepting delivery of the Bonds, agrees to be bound by the provisions of this subsection (c). If, prior to the termination of the Depository acting as such, the District fails to identify another Securities Depository to replace the Depository, then the Bonds shall no longer be required to be registered in the Registration Books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging Bonds shall designate, in accordance with the provisions hereof.

If the District determines that it is in the best interests of the beneficial owners of the Bonds that they be able to obtain certificated Bonds, the District may notify the Depository System Participants of the availability of such certificated Bonds through the Depository. In such event, the Trustee will issue, transfer and exchange Bonds as required by the Depository and others in appropriate amounts; and whenever the Depository requests, the Trustee and the District shall cooperate with the Depository in taking appropriate action (i) to make available one or more separate certificates evidencing the Bonds to any Depository System Participant having Bonds credited to its account with the Depository, or (ii) to arrange for another Securities Depository to maintain custody of a single certificate evidencing such Bonds, all at the District's expense.

(d) Payments to the Nominee. Notwithstanding any other provision of this Indenture to the contrary, so long as any Bond is registered in the name of the Nominee, all payments with respect to principal of and interest and premium, if any, on such Bond and all notices with respect to such Bond shall be made and given, respectively, as provided in the letter described in subsection (b) of this Section or as otherwise instructed by the Depository.

SECTION 2.05. *Form and Execution of Bonds.* The Bonds, the form of Trustee's certificate of authentication, and the form of assignment to appear thereon, are set forth in Appendix B attached hereto and by this reference incorporated herein, with necessary

or appropriate variations, omissions and insertions, as permitted or required by this Indenture.

The President of the Board of Directors of the District shall execute, and the Secretary to the Board shall attest each Bond. Either or both of such signatures may be made manually or may be affixed by facsimile thereof. If any officer whose signature appears on any Bond ceases to be such officer before the Closing Date, such signature will nevertheless be as effective as if the officer had remained in office until the Closing Date. Any Bond may be signed and attested on behalf of the District by such persons as at the actual date of the execution of such Bond are the proper officers of the District, duly authorized to execute debt instruments on behalf of the District, although on the date of such Bond any such person was not an officer of the District.

Only those Bonds bearing a certificate of authentication in the form set forth in Appendix B, manually executed and dated by the Trustee, are valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee is conclusive evidence that such Bonds have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

SECTION 2.06. *Transfer and Exchange of Bonds.*

(a) Transfer. Any Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by a duly authorized attorney of such person, upon surrender of such Bond to the Trustee at its Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. The Trustee shall collect any tax or other governmental charge on the transfer of any Bonds under this Section. Whenever any Bond or Bonds shall be surrendered for transfer, the District shall execute and the Trustee shall authenticate and deliver to the transferee a new Bond or Bonds of like series, interest rate, maturity and aggregate principal amount. The District shall pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer of Bonds.

(b) Exchange. The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of the same series, interest rate and maturity. The Trustee shall collect any tax or other governmental charge on the exchange of any Bonds under this subsection (b). The District shall pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange of Bonds.

(c) Limitations. The Trustee may refuse to transfer or exchange, under the provisions of this Section, any Bonds selected by the Trustee for redemption under Section 2.03, or any Bonds during the period established by the Trustee for the selection of Bonds for redemption.

SECTION 2.07. *Registration Books*. The Trustee will keep or cause to be kept, at its Office, sufficient records for the registration and registration of transfer of the Bonds, which shall at all times during normal business hours, and upon reasonable notice, be open to inspection by the District; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or

cause to be registered or transferred, on the Registration Books, Bonds as hereinbefore provided.

ARTICLE III

ISSUE OF BONDS

SECTION 3.01. *Issuance of Bonds.* Upon the execution and delivery of this Indenture, the District shall (a) execute and deliver the Series A Bonds in the aggregate principal amount of \$29,840,000 to the Trustee and the Trustee shall authenticate and deliver the Series A Bonds to the Original Purchaser upon receipt of a Request of the District therefor, and (b) execute and deliver the Series B Bonds in the aggregate principal amount of \$1,115,000 to the Trustee and the Trustee shall authenticate and deliver the Series B Bonds to the Original Purchaser upon receipt of a Request of the District therefor.

SECTION 3.02. Deposit and Application of Proceeds.

(a) Application of Proceeds of Series A Bonds. On the Closing Date, the Trustee shall deposit the proceeds of the Series A Bonds into a special fund to be held by the Trustee and known as the "Series A Bond Proceeds Account." On the Closing Date, the Trustee shall apply the amounts on deposit in the Series A Bond Proceeds Account as follows:

- (i) The Trustee shall deposit the amount of \$149,155.98 in the Series A Costs of Issuance Fund.
- (ii) The Trustee shall transfer the amount of \$32,568,605.58, constituting the remainder of the Bond proceeds, to the Escrow Agent for deposit and application in accordance with the Escrow Agreement for the purpose of refunding a portion of the 2006 Installment Payments and the 2006 Certificates. Upon making such transfer, the Trustee shall close the Series A Bond Proceeds Account.

(b) Application of Proceeds of Series B Bonds. On the Closing Date, the Trustee shall deposit the proceeds of the Series B Bonds into a special fund to be held by the Trustee and known as the "Series B Bond Proceeds Account." On the Closing Date, the Trustee shall apply the amounts on deposit in the Series B Bond Proceeds Account as follows:

- (i) The Trustee shall deposit the amount of \$5,902.10 in the Series B Costs of Issuance Fund.
- (ii) The Trustee shall transfer the amount of \$1,109,235.28, constituting the remainder of the Bond proceeds, to the Escrow Agent for deposit and application in accordance with the Escrow Agreement for the purpose of refunding the remaining portion of the 2006 Installment Payments and the 2006 Certificates. Upon making such

transfer, the Trustee shall close the Series B Bond Proceeds Account.

SECTION 3.03. *Series A Costs of Issuance Fund.* There is hereby established a separate fund to be known as the "Series A Costs of Issuance Fund", to be held by the Trustee in trust. The Trustee shall disburse moneys in the Series A Costs of Issuance Fund from time to time to pay Costs of Issuance of the Series A Bonds upon submission of a Requisition of the District stating (a) the person to whom payment is to be made, (b) the amounts to be paid, (c) the purpose for which the obligation was incurred, (d) that such payment is a proper charge against the Series A Costs of Issuance Fund, and (e) that such amounts have not been the subject of a prior Requisition of the District; in each case together with a statement or invoice for each amount requested thereunder. On September 1, 2015, the Trustee shall transfer any amounts remaining in the Series A Costs of Issuance Fund to the Bond Fund, and thereupon the Trustee shall close the Series A Costs of Issuance Fund.

SECTION 3.04. *Series B Costs of Issuance Fund.* There is hereby established a separate fund to be known as the "Series B Costs of Issuance Fund", to be held by the Trustee in trust. The Trustee shall disburse moneys in the Series B Costs of Issuance Fund from time to time to pay Costs of Issuance of the Series B Bonds upon submission of a Requisition of the District stating (a) the person to whom payment is to be made, (b) the amounts to be paid, (c) the purpose for which the obligation was incurred, (d) that such payment is a proper charge against the Series B Costs of Issuance Fund, and (e) that such amounts have not been the subject of a prior Requisition of the District; in each case together with a statement or invoice for each amount requested thereunder. On September 1, 2015, the Trustee shall transfer any amounts remaining in the Series B Costs of Issuance Fund to the Bond Fund, and thereupon the Trustee shall close the Series B Costs of Issuance Fund.

SECTION 3.05. *Validity of Bonds.* The recital contained in the Bonds that they are issued under the laws of the State of California is conclusive evidence of their validity and of the regularity of their issuance.

ARTICLE IV

SECURITY FOR THE BONDS; FLOW OF FUNDS

SECTION 4.01. *Pledge of Net Revenues.* The Bonds are secured by a first pledge of all of the Net Revenues. In addition, the Bonds are secured by a pledge of all of the moneys in the Bond Fund, including all amounts derived from the investment of such moneys. The Bonds are equally secured by a pledge, charge and lien upon the Net Revenues and such moneys without priority for series, issue, number or date and the payment of the interest on and principal of the Bonds shall be and are secured by an exclusive pledge, charge and lien upon the Net Revenues and such moneys. Such pledge and lien on the Net Revenues shall be senior to the pledge and lien on certain revenues of the District which secure the 2010 Bonds.

SECTION 4.02. *Receipt, Deposit and Application of Net Revenues.* The District has previously established the Enterprise Funds, which it will continue to hold and

maintain for the purposes and uses set forth herein. The District shall deposit all Gross Revenues from the Water Enterprise into the Water Fund, and all of the Gross Revenues from the Wastewater Fund into the Wastewater Fund, immediately on receipt.

On or before the 5th Business Day of the month preceding each Interest Payment Date, so long as any Bonds remain Outstanding hereunder, the District shall withdraw from the Enterprise Funds and pay to the Trustee for deposit into the Bond Fund (which the Trustee shall establish and hold in trust hereunder) an amount which, together with other available amounts then on deposit in the Bond Fund, is at least equal to the aggregate amount of principal of and interest on the Bonds coming due and payable on such Interest Payment Date.

The Trustee shall apply amounts in the Bond Fund solely for the purpose of (i) paying the interest on the Outstanding Bonds when due and payable (including accrued interest on any Bonds purchased or redeemed hereunder), (ii) paying the principal of the Bonds at the maturity thereof, and (iii) paying the principal of the Term Bonds upon the mandatory sinking fund redemption thereof. Upon the payment of all Outstanding Bonds, the Trustee shall transfer any moneys remaining in the Bond Fund to the District for deposit into the Enterprise Funds.

SECTION 4.03. *Investments.*

(a) Investment of Funds Held by District. All moneys in the Enterprise Funds may be invested by the District from time to time in any securities in which the District may legally invest funds subject to its control under the laws of the State of California.

(b) Investment of Funds Held by Trustee. The Trustee shall invest moneys in the funds and accounts held by it hereunder in Permitted Investments specified in the Request of the District delivered to the Trustee at least two Business Days in advance of the making of such investments. In the absence of any such direction from the District, the Trustee shall invest any such moneys solely in Permitted Investments described in clause (e) of the definition thereof; *provided, however*, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received a written direction from the District specifying a specific money market fund and, if no such written direction from the District is so received, the Trustee shall hold such moneys uninvested.

(c) General Investment Provisions. Obligations purchased as an investment of moneys in any fund or account shall be deemed to be part of such fund or account. Whenever in this Indenture the District is required to transfer any moneys to the Trustee, such transfer may be accomplished by transferring a like amount of Permitted Investments. All interest or gain derived from the investment of amounts in any of the funds or accounts held by the Trustee hereunder shall be retained in the respective fund or account from which such investment was made. For purposes of acquiring any investments hereunder, the Trustee may commingle funds held by it hereunder upon receipt by the Trustee of the Request of the District. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made under this Section.

The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The District understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker. Upon the District's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request. The Trustee will furnish the District periodic transaction statements which include detail for all investment transactions made by the Trustee hereunder.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee hereunder.

SECTION 4.04. *Valuation and Disposition of Investments.*

(a) Except as otherwise provided in subsection (b) of this Section, the District covenants that all investments of amounts deposited in any fund or account created by or under this Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of Section 148 of the Tax Code) shall be acquired, disposed of and valued (as of the date that valuation is required by this Indenture or the Tax Code) at Fair Market Value as such term is defined in subsection (d) below. The Trustee has no duty in connection with the determination of Fair Market Value other than to follow the investment directions of the District in any Certificate or Request of the District.

(b) Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Tax Code shall be valued at cost thereof (consisting of present value thereof within the meaning of Section 148 of the Tax Code); provided that the District shall inform the Trustee which funds are subject to a yield restriction, and shall provide the Trustee with any necessary valuation criteria or formulae.

(c) Except as provided in the preceding subsection (b), for the purpose of determining the amount in any fund, the Trustee shall value Permitted Investments credited to such fund at least annually at the Fair Market Value thereof. The Trustee may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system. If and as directed by the District in writing, the Trustee shall sell or present for redemption any Permitted Investment so purchased by the Trustee whenever it is necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited, and the Trustee has no liability or responsibility for any loss resulting therefrom.

(d) For purposes of this Section, the term "Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the Tax Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in

accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, or (iii) the investment is a United States Treasury Security -- State and Local Government Series which is acquired in accordance with applicable regulations of the United States Bureau of Public Debt.

ARTICLE V

FINANCIAL COVENANTS

SECTION 5.01. *Punctual Payment; Compliance With Documents.* The District shall punctually pay or cause to be paid the principal of and interest on the Bonds in strict conformity with the terms of the Bonds and of this Indenture, and will faithfully observe and perform all of the conditions, covenants and requirements of this Indenture and all Supplemental Indentures.

SECTION 5.02. *Discharge of Claims.* The District covenants that in order to fully preserve and protect the priority and security of the Bonds the District shall pay from the Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Enterprises which, if unpaid, may become a lien or charge upon the Gross Revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The District shall also pay all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Enterprises or upon any part thereof.

SECTION 5.03. *Operation of Enterprises in Efficient and Economical Manner.* The District covenants and agrees to operate the Enterprises in an efficient and economical manner and to operate, maintain and preserve the Enterprises in good repair and working order.

SECTION 5.04. *Sale or Eminent Domain of Enterprises.* Except as provided herein, the District covenants that the Enterprises will not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise dispose of, as a whole or substantially as a whole if such encumbrance, sale, lease, pledge, charge or other disposition would materially impair the ability of the District to pay the principal of or interest on the Bonds or would materially adversely affect its ability to comply with the terms of this Indenture. The District may not enter into any agreement which impairs the operation of the Enterprises or any part of it necessary to secure adequate Net Revenues to pay the Bonds, or which otherwise would impair the rights of the Bond Owners with respect to the Net Revenues. If any substantial part of the Enterprises is sold, the payment therefor shall be applied for the repair or replacement of the affected property, or to other capital improvements of the related Enterprise.

Any amounts received as awards as a result of the taking of all or any part of the Enterprises by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the District, shall be applied to the acquisition of replacement facilities or other capital improvements of the Enterprises.

SECTION 5.05. *Insurance.* The District shall at all times maintain with responsible insurers all such insurance on the Enterprises as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Enterprises. All amounts collected from insurance against accident to or destruction of any portion of the Enterprises shall be applied to the repair or replacement of the insured facilities, or to other capital improvements of the related Enterprise.

The District shall also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the District, Trustee and the Owners of the Bonds.

Any policy of insurance required under this Section may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of self-insurance by the District or in the form of the participation by the District in a joint powers agency or other program providing pooled insurance.

SECTION 5.06. *Records and Accounts.* The District will keep proper books of record and accounts of the Enterprises, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Enterprises. Said books shall, upon reasonable request, be subject to the inspection of the Trustee and the Owners of not less than 10% of the Outstanding Bonds or their representatives authorized in writing.

The District will cause the books and accounts of the Enterprises to be audited annually by an Independent Accountant and will make available for inspection by the Bond Owners at the Office of the Trustee, upon reasonable request, a copy of the report of such Independent Accountant. The District will furnish a copy of such statements, upon reasonable request, to the Trustee and any Bond Owner.

SECTION 5.07. *Rates and Charges.*

(a) Gross Revenue Covenant. The District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water Enterprise during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues from the Water Enterprise sufficient to pay the following amounts in the following order of priority:

- (i) All Operation and Maintenance Costs of the Water Enterprise estimated by the District to become due and payable in the Fiscal Year.
- (ii) All payments of principal of and interest on the portion of the Bonds which is allocable to the Water Enterprise and all payments of principal of and interest on any Parity Debt of the Water Enterprise as they become due and payable during the Fiscal Year, without preference or priority, except to the extent payable from the proceeds of Parity Debt held for that purpose.

- (iii) All payments required to meet any other obligations of the District which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues of the Water Enterprise during such Fiscal Year.

In addition, the District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater Enterprise during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues from the Wastewater Enterprise sufficient to pay the following amounts in the following order of priority:

- (i) All Operation and Maintenance Costs of the Wastewater Enterprise estimated by the District to become due and payable in the Fiscal Year.
- (ii) All payments of principal of and interest on the portion of the Bonds which is allocable to the Wastewater Enterprise and all payments of principal of and interest on any Parity Debt of the Wastewater Enterprise as they become due and payable during the Fiscal Year, without preference or priority, except to the extent payable from the proceeds of Parity Debt held for that purpose.
- (iii) All payments required to meet any other obligations of the District which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues of the Wastewater Enterprise during such Fiscal Year.

(b) Net Revenue Covenant. The District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water Enterprise during each Fiscal Year which are sufficient to yield Net Revenues of the Water Enterprise which are at least equal to 125% of the amount of Debt Service calculated for such Fiscal Year with respect to the Water Enterprise. For purposes of this subsection (b), the amount of Net Revenues for a Fiscal Year will be computed by including in Gross Revenues all amounts transferred into the Water Fund from the Rate Stabilization Fund during the Fiscal Year.

The District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater Enterprise during each Fiscal Year which are sufficient to yield Net Revenues of the Wastewater Enterprise which are at least equal to 125% of the amount of Debt Service calculated for such Fiscal Year with respect to the Wastewater Enterprise. For purposes of this subsection (b), the amount of Net Revenues for a Fiscal Year will be computed by including in Gross Revenues all amounts transferred into the Wastewater Fund from the Rate Stabilization Fund during the Fiscal Year.

In the event that the actual collection of Net Revenues based on such rates, fees and charges is insufficient to yield Net Revenues which meet the requirements of this subsection (b), such event shall not constitute an Event of Default unless it has continued uncured for a period of at least 12 months.

SECTION 5.08. *Establishment of Rate Stabilization Fund.* The District has the right at any time to establish a fund to be held by it and administered in accordance with this Section for the purpose of stabilizing the rates and charges imposed by the District with respect to the Enterprises. From time to time the District may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secures the Bonds and any Parity Debt, as the District may determine.

The District may, but is not be required to, withdraw amounts on deposit in the Rate Stabilization Fund and deposit such amounts in the Enterprise Funds in any Fiscal Year for the purpose of paying the principal of and interest on the Bonds or any Parity Debt coming due and payable in such Fiscal Year. Amounts so transferred from the Rate Stabilization Fund to the Enterprise Funds in any Fiscal Year constitute Gross Revenues for that Fiscal Year and will be applied for the purposes of the Enterprise Funds. Amounts on deposit in the Rate Stabilization Fund are not pledged to and do not secure the Bonds or any Parity Debt. All interest or other earnings on deposits in the Rate Stabilization Fund will be retained therein or, at the option of the District, be applied for any other lawful purposes. The District has the right at any time to withdraw any or all amounts on deposit in the Rate Stabilization Fund and apply such amounts for any other lawful purposes of the District.

SECTION 5.09. *Issuance of Parity Debt.* The District may issue or incur any Parity Debt, which are secured by a pledge of and lien on the Net Revenues and amounts on deposit in the Bond Fund on a parity with the pledge and lien which secure the Bonds, upon satisfaction of all of the following conditions:

- (a) No Event of Default has occurred and is continuing.
- (b) The Net Revenues, calculated in accordance with sound accounting principles, as shown by the books of the District for the most recent completed Fiscal Year for which audited financial statements of the District are available, or for any more recent consecutive 12-month period selected by the District, in either case verified by an Independent Accountant or a Fiscal Consultant or shown in the audited financial statements of the District, plus at the option of the District any or all of the Additional Revenues, are at least equal to 125% of the Debt Service for such Fiscal Year.
- (c) The District shall deliver to the Trustee a Certificate of the District certifying, and an opinion of Bond Counsel stating, that the conditions precedent to the issuance of such Parity Debt set forth in the foregoing provisions of this Section have been satisfied.

Nothing herein limits or affects the ability of the District to issue or incur obligations which are either unsecured or which are secured by an interest which is junior and subordinate to the pledge of and lien on the Net Revenues which secures the Bonds.

SECTION 5.10. *Compliance With 2010 Bond Indenture and Parity Debt Documents.* The District shall observe and perform all of the covenants, agreements and conditions on its part required to be observed and performed under the 2010 Bond

Indenture and under the Parity Debt Documents. The District will not take or omit to take any action within its control which would, or which if not corrected with the passage of time would, constitute an event of default under and within the meaning of the 2010 Bond Indenture or the Parity Debt Documents.

SECTION 5.11. *Tax Covenants Relating to Series A Bonds.*

(a) Generally. The District shall not take any action or permit to be taken any action within its control which would cause or which, with the passage of time if not cured would cause, interest on the Series A Bonds to become includable in gross income for federal income tax purposes.

(b) Private Activity Bond Limitation. The District shall assure that the proceeds of the Bonds are not used in a manner which would cause the Series A Bonds to become “private activity bonds” within the meaning of Section 141(a) of the Tax Code or to meet the private loan financing test of Section 141(c) of the Tax Code.

(c) Federal Guarantee Prohibition. The District shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Series A Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Tax Code.

(d) No Arbitrage. The District shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the Series A Bond proceeds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the Series A Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Tax Code.

(e) Rebate of Excess Investment Earnings. The District shall calculate or cause to be calculated all amounts of excess investment earnings with respect to the Series A Bonds which are required to be rebated to the United States of America under Section 148(f) of the Tax Code, at the times and in the manner required under the Tax Code. The District shall pay when due an amount equal to excess investment earnings to the United States of America in such amounts, at such times and in such manner as may be required under the Tax Code, such payments to be made from any source of legally available funds of the District. The District shall keep or cause to be kept, and retain or cause to be retained for a period of six years following the retirement of the Series A Bonds, records of the determinations made under this subsection (e).

The Trustee has no duty to monitor the compliance by the District with any of the covenants contained in this Section.

SECTION 5.12. *Refunding of 2006 Installment Payments and 2006 Certificates.* The District shall cause the proceeds of the Bonds to be applied to the prepayment and discharge on the Closing Date of the 2006 Installment Payments and the corresponding redemption and discharge of the 2006 Certificates. The District covenants that the pledge and lien on the revenues of the District for the security of the 2006 Installment Payments and the 2006 Certificates shall be discharged in full on the Closing Date.

SECTION 5.13. *Continuing Disclosure.* The District shall comply with and carry out all of the provisions of the Continuing Disclosure Certificate which has been

executed and delivered by the District on the Closing Date. Notwithstanding any other provision hereof, failure of the District to comply with the Continuing Disclosure Certificate does not constitute an Event of Default hereunder; *provided, however*, that any Participating Underwriter (as such term is defined in the Continuing Disclosure Certificate) or any Owner or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the District to comply with its obligations under this Section.

SECTION 5.14. *Further Assurances.* The District will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture, and for the better assuring and confirming unto the Owners of the Bonds, the Trustee the rights and benefits provided in this Indenture.

ARTICLE VI

THE TRUSTEE

SECTION 6.01. Duties, Immunities and Liabilities of Trustee.

(a) Performance of Duties. The Trustee shall, prior to the occurrence of an Event of Default, and after the curing or waiving of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or duties will be read into this Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a reasonable corporate trustee would exercise or use.

(b) Removal of Trustee. The District may remove the Trustee at any time, and shall remove the Trustee (i) if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or (ii) if at any time the Trustee ceases to be eligible in accordance with subsection (e) of this Section, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property is appointed, or any public officer takes control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation. The District may accomplish such removal by giving 30 days written notice to the Trustee, whereupon the District will appoint a successor Trustee by an instrument in writing.

(c) Resignation by Trustee. The Trustee may at any time resign by giving written notice of such resignation to the District, and by giving notice of such resignation by first class mail, postage prepaid, to the Bond Owners at their respective addresses shown on the Registration Books. Upon receiving such notice of resignation, the District will promptly appoint a successor Trustee by an instrument in writing.

(d) Appointment of Successor Trustee. Any removal or resignation of the Trustee and appointment of a successor Trustee becomes effective upon acceptance of

appointment by the successor Trustee. If no successor Trustee has been appointed and accepted appointment within 45 days following giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Owner (on behalf of such Owner and all other Owners) may petition any federal or state court for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture shall signify its acceptance of such appointment by executing and delivering to the District and to its predecessor Trustee a written acceptance thereof, and to the predecessor Trustee an instrument indemnifying the predecessor Trustee for any costs or claims arising during the time the successor Trustee serves as Trustee hereunder, and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless, upon the receipt by the predecessor Trustee of the Request of the District or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the District will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the District shall mail or cause the successor Trustee to mail, by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts hereunder to each rating agency which then maintains a rating on the Bonds, and to the Owners at the addresses shown on the Registration Books. If the District fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the District.

(e) Qualifications of Trustee. Any Trustee appointed under the provisions of this Section in succession to the Trustee shall:

- be a company or bank having trust powers,
- have a corporate trust office in the State of California,
- have (or be part of a bank holding company system whose bank holding company has) a combined capital and surplus of at least \$50,000,000, and
- be subject to supervision or examination by federal or state authority.

If such bank or company publishes a report of condition at least annually, under law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or

company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee ceases to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in subsection (c) of this Section.

The District will maintain a Trustee which is qualified under the provisions of the foregoing provisions of this subsection (e), so long as any Bonds are Outstanding.

SECTION 6.02. *Merger or Consolidation.* Any bank or company into which the Trustee may be merged or converted or with which either of them may be consolidated or any bank or company resulting from any merger, conversion or consolidation to which it shall be a party or any bank or company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank or company shall be eligible under subsection (e) of Section 6.01, shall be the successor to such Trustee without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

SECTION 6.03. *Rights and Liabilities of Trustee.*

(a) The recitals of facts herein and in the Bonds contained are taken as statements of the District, and the Trustee has no responsibility for the correctness of the same, nor does it have any liability whatsoever therefor, nor make any representations as to the validity or sufficiency of this Indenture or of the Bonds nor shall it incur any responsibility in respect thereof, other than as expressly stated herein. The Trustee is, however, responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee is not liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Trustee is not liable for the acts of any agents of the Trustee selected by it with due care. The Trustee may become the Owner of any Bonds with the same rights it would have if it were not Trustee and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of the Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding. The Trustee, either as principal or agent, may engage in or be entrusted in any financial or other transaction with the District.

(b) The Trustee has no liability with respect to any action taken or omitted to be taken by it in accordance with the direction of the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

(c) The Trustee has no liability for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture, except for actions arising from the negligence or willful misconduct of the Trustee. The permissive right of the Trustee to do things enumerated hereunder is not construed as a mandatory duty.

(d) The Trustee will not be deemed to have knowledge of any Event of Default hereunder unless and until a responsible officer of the Trustee has actual knowledge thereof, or unless and until a responsible officer of the Trustee has received written

notice thereof at its Office. Except as otherwise expressly provided herein, the Trustee is not bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default hereunder or thereunder. The Trustee is not responsible for the District's payment of principal and interest on the Bonds, the District's observance or performance of any other covenants, conditions or terms contained herein, or the validity or effectiveness of any collateral given to or held by it. Without limiting the generality of the foregoing, and notwithstanding anything herein to the contrary, the Trustee is not responsible for reviewing the contents of any financial statements furnished to the Trustee under Section 5.06 and may rely conclusively on the Certificate of the District accompanying such financial statements to establish the District's compliance with its financial covenants hereunder, including, without limitation, its covenants regarding the deposit of Gross Revenues into the Enterprise Funds and the investment and application of moneys on deposit in the Enterprise Funds (other than its covenants to transfer such moneys to the Trustee when due hereunder).

(e) No provision in this Indenture requires the Trustee to risk or expend its own funds or otherwise incur any financial liability hereunder. The Trustee is entitled to receive interest on any moneys advanced by it hereunder, at the maximum rate permitted by law.

(f) The Trustee may establish additional accounts or subaccounts of the funds established hereunder as the Trustee deems necessary or prudent in furtherance of its duties under this Indenture.

(g) The Trustee has no responsibility or liability whatsoever with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds, nor shall the Trustee have any obligation to review any such material, and any such review by the Trustee will not be deemed to create any obligation, duty or liability on the part of the Trustee.

(h) At any and all reasonable times the Trustee, and its duly authorized agents, attorneys, experts, engineers, accountants and representatives, have the right (but not the duty) fully to inspect the Enterprises, including all books, papers and records of the District pertaining to the Enterprises and the Bonds, and to take such memoranda from and with regard thereto as may be desired but which is not privileged by statute or by law.

(i) Before taking any action under Article VIII the Trustee may require indemnity satisfactory to the Trustee be furnished to it to hold the Trustee harmless from any expenses whatsoever and to protect it against any liability it may incur hereunder.

(j) The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

(k) The permissive right of the Trustee to do things enumerated in this Indenture is not construed as a duty.

(l) The Trustee may execute any of the trusts or powers hereof and perform any of its duties through attorneys, agents and receivers and is not answerable for the conduct of the same if appointed by it with reasonable care.

SECTION 6.04. *Right to Rely on Documents.* The Trustee is protected in acting upon any notice, resolution, requisition, request, consent, order, certificate, report, opinion or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, including, without limitation, Bond Counsel or other counsel of or to the District, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by the Trustee hereunder in accordance therewith.

The Trustee is not bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and such person's title thereto is established to the satisfaction of the Trustee.

Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the District, which shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of this Indenture in reliance upon such Certificate, but in its discretion the Trustee may (but has no duty to), in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable. The Trustee may conclusively rely on any certificate or report of any Independent Accountant appointed by the District.

SECTION 6.05. *Preservation and Inspection of Documents.* All documents received by the Trustee under the provisions of this Indenture shall be retained in its possession and shall be subject during normal business hours, and upon reasonable prior written notice, to the inspection of the District and any Owner, and their agents and representatives duly authorized in writing.

SECTION 6.06. *Compensation and Indemnification.* Absent any agreement to the contrary, the District shall pay to the Trustee from time to time compensation for all services rendered under this Indenture and also all expenses, charges, legal and consulting fees and other disbursements and those of its attorneys (including any allocated costs of internal counsel), agents and employees, incurred in and about the performance of its powers and duties under this Indenture. The Trustee has a first lien on the Net Revenues and all funds and accounts held by the Trustee hereunder to secure the payment to the Trustee of all fees, costs and expenses, including compensation to its experts, attorneys and counsel incurred in declaring such Event of Default and in exercising the rights and remedies set forth in Article VIII. Any such expenses incurred by the Trustee shall be deemed to constitute a substantial contribution to the trust estate which secures the Bonds.

The District further covenants and agrees to indemnify and save the Trustee and its officers, directors, agents and employees, harmless against any loss, expense and liabilities, whether or not litigated, which it may incur arising out of or in the exercise and performance of its powers and duties hereunder, including the costs and expenses of

defending against any claim of liability and of enforcing any remedies hereunder and under any related documents, but excluding any and all losses, expenses and liabilities which are due to the negligence or willful misconduct of the Trustee, its officers, directors, agents or employees. The obligations of the District under this Section shall survive resignation or removal of the Trustee under this Indenture and payment of the Bonds and discharge of this Indenture.

SECTION 6.07. *Accounting Records and Financial Statements.* The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of the Bonds and all funds and accounts established and held by the Trustee under this Indenture. Such books of record and account shall be available for inspection by the District at reasonable hours, during regular business hours, with reasonable prior notice and under reasonable circumstances. The Trustee shall furnish to the District, at least semiannually, an accounting (which may be in the form of its customary statements) of all transactions relating to the proceeds of the Bonds and all funds and accounts held by the Trustee under this Indenture.

ARTICLE VII

MODIFICATION AND AMENDMENT OF THIS INDENTURE

SECTION 7.01. Amendments Permitted.

(a) Amendment With Bond Owner Consent. This Indenture and the rights and obligations of the District and of the Owners of the Bonds may be modified or amended by the District and the Trustee upon Request of the District at any time by the execution of a Supplemental Indenture, but only with the written consents of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding with respect to all Bonds then Outstanding, exclusive of Bonds disqualified as provided in Section 9.05. Any such Supplemental Indenture becomes effective upon the execution and delivery thereof by the parties thereto and upon consent of the requisite Bond Owners. No such modification or amendment shall:

- (i) extend the maturity of any Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the District to pay the principal thereof, or interest thereon, or any premium payable on the redemption thereof, at the time and place and at the rate and in the currency provided therein, without the written consent of the Owner of such Bond, or
- (ii) permit the creation by the District of any mortgage, pledge or lien upon the Net Revenues superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as expressly permitted by this Indenture), or reduce the percentage of Bonds required for the affirmative vote or written consent to an amendment or modification, or

- (iii) modify any of the rights or obligations of the Trustee without its written consent.

(b) Amendment Without Bond Owner Consent. This Indenture and the rights and obligations of the District and of the Owners of the Bonds may also be modified or amended at any time by a Supplemental Indenture, without the consent of any Owners of the Bonds, but only for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the District contained in this Indenture, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power herein reserved to or conferred upon the District;
- (ii) to cure any ambiguity, or to cure, correct or supplement any defective provision contained in this Indenture, or in any other respect whatsoever as the District deems necessary or desirable, provided under any circumstances that such modifications or amendments do not materially adversely affect the interests of the Owners in the opinion of Bond Counsel filed with the District and the Trustee;
- (iii) to provide for the issuance of Parity Debt under Section 5.09, and to provide the terms and conditions under which such Parity Debt may be issued, including but not limited to the establishment of special funds and accounts relating thereto and any other provisions relating solely thereto, subject to and in accordance with the provisions of Section 5.09; or
- (iv) to amend any provision hereof to assure the exclusion from gross income of interest on the Series A Bonds for federal income tax purposes under the Tax Code, in the opinion of Bond Counsel filed with the District and the Trustee.

SECTION 7.02. *Effect of Supplemental Indenture*. From and after the time any Supplemental Indenture becomes effective under this Article VII, this Indenture shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties hereto or thereto and all Owners, as the case may be, shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 7.03. *Endorsement or Replacement of Bonds After Amendment*. After the effective date of any amendment or modification hereof under this Article VII, the District may determine that any or all of the Bonds shall bear a notation, by endorsement in form approved by the District, as to such amendment or modification and in that case upon demand of the District the Owners of such Bonds shall present such Bonds for that purpose at the Office of the Trustee, and thereupon a suitable notation as to such action shall be made on such Bonds. In lieu of such notation, the District may determine that new Bonds shall be prepared and executed in exchange for any or all of the Bonds and

in that case upon demand of the District the Owners of the Bonds shall present such Bonds for exchange at the Office of the Trustee without cost to such Owners.

SECTION 7.04. *Amendment by Mutual Consent.* The provisions of this Article VII shall not prevent any Owner from accepting any amendment as to the particular Bond held by such Owner.

SECTION 7.05. *Trustee's Reliance.* The Trustee may conclusively rely, and is protected in relying, upon a Certificate of the District and an opinion of counsel stating that all requirements of this Indenture relating to the amendment or modification hereof have been satisfied and that such amendments or modifications do not materially adversely affect the interests of the Owners.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS

SECTION 8.01. *Events of Default and Acceleration of Maturities.* Each of the following events constitutes an Event of Default hereunder:

- (a) Failure to pay any installment of the principal of any Bonds when due, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.
- (b) Failure to pay any installment of interest on the Bonds when due.
- (c) Failure by the District to observe and perform any of the other covenants, agreements or conditions on its part contained in this Indenture or in the Bonds, if such failure has continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, has been given to the District by the Trustee; *provided, however*, if in the reasonable opinion of the District the failure stated in the notice can be corrected, but not within such 30-day period, such failure shall not constitute an Event of Default if the District institutes corrective action within such 30-day period and thereafter diligently and in good faith cures the failure in a reasonable period of time.
- (d) The District commences a voluntary case under Title 11 of the United States Code or any substitute or successor statute.
- (e) The occurrence and continuation of an event of default under and as defined in any Parity Debt Documents.

If an Event of Default occurs and is continuing, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding the Trustee shall, (a) declare the principal of the Bonds, together with the accrued interest thereon, to be due and payable immediately, and upon any such

declaration the same will become immediately due and payable, anything in this Indenture or in the Bonds to the contrary notwithstanding, and (b) subject to the provisions of Section 8.06, exercise any other remedies available to the Trustee and the Bond Owners in law or at equity to enforce the rights of the Bond Owners under this Indenture.

Immediately upon obtaining actual knowledge of the occurrence of an Event of Default, but in no event later than five Business Days following actual knowledge of such occurrence, the Trustee shall give notice of such Event of Default to the District by telephone confirmed in writing. Such notice shall also state whether the principal of the Bonds has been declared to be or have immediately become due and payable. With respect to any Event of Default described in clauses (a) or (b) above the Trustee shall, and with respect to any Event of Default described in clause (c) above the Trustee in its sole discretion may, also give such notice to the Owners in the same manner as provided herein for notices of redemption of the Bonds, which shall include the statement that interest on the Bonds shall cease to accrue from and after the date, if any, on which the Trustee declares the Bonds to become due and payable under the preceding paragraph (but only to the extent that principal and any accrued, but unpaid, interest on the Bonds is actually paid on such date).

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds has been so declared due and payable, and before any judgment or decree for the payment of the moneys due has been obtained or entered, the District shall deposit with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal and interest at an interest rate of 10% per annum, and the reasonable fees and expenses of the Trustee, including fees and expenses of its attorneys, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) has been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the District and to the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

SECTION 8.02. *Application of Funds Upon Acceleration.* All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of this Indenture shall be applied by the Trustee as follows and in the following order:

- (a) *First*, to the payment of any fees, costs and expenses incurred by the Trustee to protect the interests of the Owners of the Bonds; payment of the fees, costs and expenses of the Trustee (including fees and expenses of its counsel, including any allocated costs of internal counsel) incurred in and about the performance of its powers and duties under this Indenture and the payment of all fees, costs and expenses owing to the Trustee under Section 6.06,

together with interest on all such amounts advanced by the Trustee at the maximum rate permitted by law.

- (b) *Second*, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on such overdue amounts at the respective rates of interest borne by those Bonds, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably to the aggregate of such interest, principal and interest on overdue amounts.

SECTION 8.03. *Power of Trustee to Control Proceedings.* If the Trustee, upon the happening of an Event of Default, takes any action, by judicial proceedings or otherwise, in the performance of its duties hereunder, whether upon its own discretion, with the consent or at the request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, it has full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action. The Trustee may not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding Bonds hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

SECTION 8.04. *Limitation on Owners' Right to Sue.* No Owner of any Bond has the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Indenture, unless:

- (a) said Owner has previously given to the Trustee written notice of the occurrence of an Event of Default;
- (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding have requested the Trustee in writing to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name;
- (c) said Owners have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and
- (d) the Trustee has failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy hereunder; it being understood and intended that no one or more Owners has any right in any manner whatever by his or their action to enforce any right under this Indenture, except in the manner herein provided, and that all proceedings at law or in

equity to enforce any provision of this Indenture shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Owners of the Outstanding Bonds.

The right of any Owner of any Bond to receive payment of the principal of and premium, if any, and interest on such Bond as herein provided, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of this Section or any other provision of this Indenture.

SECTION 8.05. *Non-waiver.* Nothing in this Article VIII or in any other provision of this Indenture or in the Bonds, affects or impairs the obligation of the District, which is absolute and unconditional, to pay from the Net Revenues and other amounts pledged hereunder, the principal of and interest and redemption premium (if any) on the Bonds to the Bond Owners when due and payable as herein provided, or affects or impairs the right of action, which is also absolute and unconditional, of the Bond Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds.

A waiver of any default by any Bond Owner shall not affect any subsequent default or impair any rights or remedies on the subsequent default. No delay or omission of any Bond Owner to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Bond Owners by the Refunding Bond Law or by this Article VIII may be enforced and exercised from time to time and as often as shall be deemed expedient by the Bond Owners.

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

SECTION 8.06. *Actions by Trustee as Attorney-in-Fact.* Any suit, action or proceeding which any Owner has the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all Owners similarly situated and the Trustee is hereby appointed (and the successive respective Owners by taking and holding the Bonds shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact, subject to the provisions of Article VI. Notwithstanding the foregoing provisions of this Section, the Trustee has no duty to enforce any such right or remedy unless it has been indemnified to its satisfaction for any additional fees, charges and expenses of the Trustee related thereto, including without limitation, fees and charges of its attorneys and advisors.

SECTION 8.07. *Remedies Not Exclusive.* No remedy herein conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise, and

may be exercised without exhausting and without regard to any other remedy conferred by the Refunding Bond Law or any other law.

ARTICLE IX

MISCELLANEOUS

SECTION 9.01. *Limited Liability of District.* Notwithstanding anything in this Indenture contained, the District is not required to advance any moneys derived from any source of income other than the Net Revenues for the payment of the principal of or interest on the Bonds, or any premiums upon the redemption thereof, or for the performance of any covenants herein contained (except to the extent any such covenants are expressly payable hereunder from the Gross Revenues). The District may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose and may be used by the District for such purpose without incurring indebtedness.

The Bonds are revenue bonds, payable exclusively from the Net Revenues and other funds as in this Indenture provided. The general fund of the District is not liable, and the credit of the District is not pledged, for the payment of the interest on or principal of the Bonds. The Owners of the Bonds have no right to compel the forfeiture of any property of the District. The principal of and interest on the Bonds, and any premiums upon the redemption of any thereof, are not a debt of the District, or a legal or equitable pledge, charge, lien or encumbrance upon any property of the District or upon any of its income, receipts or revenues except the Net Revenues and other funds pledged to the payment thereof as provided in this Indenture.

SECTION 9.02. *Benefits of Indenture Limited to Parties.* Nothing in this Indenture, expressed or implied, gives to any person other than the District and the Owners of the Bonds, any right, remedy or claim under or by reason of this Indenture. Any covenants, stipulations, promises or agreements in this Indenture contained by and on behalf of the District shall be for the sole and exclusive benefit of the Trustee and the Owners of the Bonds.

SECTION 9.03. *Defeasance of Bonds.* If the District pays and discharges the entire indebtedness on any Bonds in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of and interest on such Bonds, as and when the same become due and payable;
- (b) by irrevocably depositing with the Trustee or an escrow bank, in trust, at or before maturity, an amount of cash which, together with the available amounts then on deposit in the funds and accounts established under this Indenture, in the opinion or report of an Independent Accountant is fully sufficient to pay such Bonds, including all principal, interest and redemption premium, if any;
- (c) by irrevocably depositing with the Trustee or an escrow bank, in trust, Federal Securities in such amount as an Independent

Accountant determines will, together with the interest to accrue thereon and available moneys then on deposit in any of the funds and accounts established under this Indenture, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premium, if any) at or before maturity; or

- (d) by purchasing such Bonds prior to maturity and tendering such Bonds to the Trustee for cancellation;

and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption has been duly given or provision satisfactory to the Trustee has been made for the giving of such notice, then, at the election of the District, and notwithstanding that any such Bonds have not been surrendered for payment, the pledge of the Net Revenues and other funds provided for in this Indenture and all other obligations of the Trustee and the District under this Indenture with respect to such Bonds shall cease and terminate, except only:

- (a) the obligations of the District under Section 5.11,
- (b) the obligation of the Trustee to transfer and exchange Bonds hereunder,
- (c) the obligation of the District to pay or cause to be paid to the Owners of such Bonds, from the amounts so deposited with the Trustee, all sums due thereon, and
- (d) the obligations of the District to compensate and indemnify the Trustee under Section 6.06.

The District shall file notice of such election with the Trustee. The Trustee shall pay any funds thereafter held by it, which are not required for said purpose, to the District.

In the case of a defeasance or payment of all of the Bonds Outstanding in accordance with this Section, the Trustee shall pay all amounts held by it in any funds or accounts hereunder, which are not required for said purpose or for payment of amounts due the Trustee under Section 6.06, to the District.

SECTION 9.04. *Execution of Documents and Proof of Ownership by Owners.* Any request, consent, declaration or other instrument which this Indenture may require or permit to be executed by any Owner may be in one or more instruments of similar tenor, and shall be executed by such Owner in person or by their attorneys appointed in writing.

Except as otherwise herein expressly provided, the fact and date of the execution by any Owner or his attorney of such request, consent, declaration or other instrument, or of such writing appointing such attorney, may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state in which he purports to act, that the person signing such request, declaration or other instrument or writing acknowledged to him the execution thereof, or

by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer.

The ownership of Bonds and the amount, maturity, number and date of ownership thereof are conclusively proved by the Registration Books.

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

SECTION 9.05. *Disqualified Bonds.* In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, Bonds which are owned or held by or for the account of the District (but excluding Bonds held in any employees' retirement fund) shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. The Trustee will not be deemed to have knowledge that any Bond is owned or held by the District unless the District is the Registered Owner or the Trustee has received written notice to that effect.

SECTION 9.06. *Waiver of Personal Liability.* No member, officer, agent or employee of the District shall be individually or personally liable for the payment of the principal of or interest or any premium on the Bonds; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

SECTION 9.07. *Destruction of Canceled Bonds.* Whenever in this Indenture provision is made for the surrender to the District of any Bonds which have been paid or canceled under the provisions of this Indenture, a certificate of destruction duly executed by the Trustee shall be deemed to be the equivalent of the surrender of such canceled Bonds and the District shall be entitled to rely upon any statement of fact contained in any certificate with respect to the destruction of any such Bonds therein referred to. The District shall pay all costs of any microfilming of Bonds to be destroyed.

SECTION 9.08. *Funds and Accounts.* Any fund or account required by this Indenture to be established and maintained by the District or the Trustee may be established and maintained in the accounting records of the District or the Trustee, as the case may be, either as a fund or an account, and may, for the purpose of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account. All such records with respect to all such funds and accounts held by the District shall at all times be maintained in accordance with generally accepted accounting principles and all such records with respect to all such funds and accounts held by the Trustee shall be at all times maintained in accordance with industry practices; in each case with due regard for the protection of the security of the Bonds and the rights of every Owner thereof.

SECTION 9.09. *Notices.* All written notices to be given under this Indenture shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or at such address as the party may provide to the other party in writing from time to time. Notice shall be effective either (a) upon transmission by facsimile transmission or other form of telecommunication, (b) 48 hours after deposit in the United States mail, postage prepaid, or (c) in the case of personal delivery to any person, upon

actual receipt. The District or the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

If to the District: Marina Coast Water District
11 Reservation Road
Marina, California 93933
Attention: General Manager
Fax: (831) 883-5995

If to the Trustee: MUFG Union Bank of California, N.A.
Corporate Trust Dept.
350 California Street, 11th Floor
Attention: Corporate Trust Department
San Francisco, California 94104
Fax: (415) 273-2492
Email: soniaflores@unionbank.com with a copy to
AccountAdministration-CorporateTrust@unionbank.com

SECTION 9.10. *Unclaimed Moneys.* Anything contained herein to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or premium (if any) on or principal of the Bonds which remains unclaimed for two years after the date when the payments of such interest, premium and principal have become payable, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with the Trustee after the date when the interest and premium (if any) on and principal of such Bonds have become payable, shall be repaid by the Trustee to the District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of the principal of and interest and redemption premium (if any) on such Bonds.

SECTION 9.11. *Execution in Several Counterparts.* This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the District and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

SECTION 9.12. *Governing Law.* This Indenture shall be governed by and construed in accordance with the laws of the State of California.

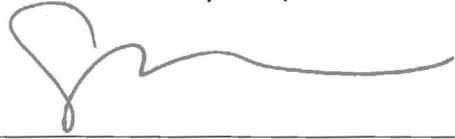
IN WITNESS WHEREOF, the MARINA COAST WATER DISTRICT has caused this Indenture to be signed in its name by its President and attested by its Secretary to the Board, and MUFG UNION BANK, N.A., in token of its acceptance of the trust created hereunder, has caused this Indenture to be signed in its corporate name by its officer identified below, all as of the day and year first above written.

MARINA COAST WATER DISTRICT

By  _____
President

Attest:  _____
Secretary to the Board

MUFG UNION BANK, N.A., as Trustee

By  _____
Authorized Officer

APPENDIX A

DEFINITIONS

“Additional Revenues” means, with respect to the issuance of any Parity Debt, any or all of the following amounts:

- (a) An allowance for Net Revenues from any additions or improvements to or extensions of the Enterprises to be made from the proceeds of such Parity Debt in an amount equal to 100% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a Fiscal Consultant.
- (b) An allowance for Net Revenues arising from any increase in the charges made for service from the Enterprises which has become effective prior to the incurring of such Parity Debt but which, during all or any part of the most recent completed Fiscal Year for which audited financial statements of the District are available, or for any more recent consecutive 12-month period selected by the District pursuant to Section 5.09(b), was not in effect, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or 12-month period, all as shown by the certificate or opinion of a Fiscal Consultant.

“Bond Counsel” means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys appointed by or acceptable to the District of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

“Bond Fund” means the fund by that name established and held by the Trustee under Section 4.02(a).

“Bond Year” means any twelve-month period commencing on June 2 in a year and ending on the next succeeding June 1, both dates inclusive; except that the first Bond Year commences on the Closing Date and ends on June 1, 2016.

“Bonds” means, collectively, the Series A Bonds and the Series B Bonds.

“Business Day” means a day (other than a Saturday or a Sunday) on which banks are not required or authorized to remain closed in the city in which the Office of the Trustee is located, and on which the Federal Reserve Bank system is not closed.

“Certificate of the District” means a certificate in writing signed by the General Manager or any other officer of the District duly authorized by the Board of Directors for that purpose.

“Closing Date” means July __, 2015, being the date of delivery of the Bonds to the Original Purchaser.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the District relating to the authorization, issuance, sale and delivery of the Bonds and the refunding of the 2006 Installment Payments and the 2006 Certificates, including but not limited to: printing expenses; rating agency fees; filing and recording fees; initial fees, expenses and charges of the Trustee, the Escrow Bank and their respective counsel, including the Trustee’s first annual administrative fee; fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals; fees and charges for preparation, execution and safekeeping of the Bonds; and any other cost, charge or fee in connection with the original issuance of the Bonds and the refunding of the 2006 Installment Payments and the 2006 Certificates.

“Debt Service” means, with respect to any Fiscal Year, the aggregate amount of principal of and interest on the Bonds and any outstanding Parity Debt during such fiscal year, including the amount of principal thereof coming due and payable in such fiscal year by operation of mandatory sinking fund redemption.

“Depository” means (a) initially, DTC, and (b) any other Securities Depository acting as Depository under Section 2.04.

“Depository System Participant” means any participant in the Depository’s book-entry system.

“District” means the Marina Coast Water District, a county water district organized and existing under the laws of the State of California, and any successor thereto.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Enterprise Funds” means, collectively, the Water Fund and the Wastewater Fund.

“Enterprises” means, collectively, the Water Enterprise and the Wastewater Enterprise.

“Escrow Agreement” means the Escrow Deposit and Trust Agreement dated the Closing Date, between the District and MUFG Union Bank, N.A., as escrow bank and as trustee for the 2006 Certificates, relating to the deposit and application of the proceeds of the Bonds and other funds to pay and discharge the 2006 Installment Payments and the 2006 Certificates.

“Event of Default” means any of the events described in Section 8.01.

“Federal Securities” means: (a) any direct general non-callable obligations of the United States of America, including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America; and (b) any

obligations the timely payment of principal of and interest on which are fully guaranteed by the United States of America or which are directly or indirectly secured by obligations described in the preceding clause (a).

“Fiscal Consultant” means any consultant or firm of such consultants appointed by the District and who, or each of whom: (a) is judged by the District to have experience in matters relating to the financing of water and wastewater systems; (b) is in fact independent and not under domination of the District; (c) does not have any substantial interest, direct or indirect, with the District other than as purchaser of the Bonds or any Parity Debt; and (d) is not connected with the District as an officer or employee of the District, but who may be regularly retained to make reports to the District.

“Fiscal Year” means the period commencing on July 1 of each year and terminating on the next succeeding June 30, or such other period as may be established by the District as its official fiscal year period (written notice of which shall be given by the District to the Trustee).

“Gross Revenues” means all gross income and revenue received by the District from the ownership and operation of the Enterprises, including, without limiting the generality of the foregoing:

- (a) all *ad valorem* taxes allocable to the Enterprises which are levied upon taxable property in the District by the Board of Supervisors of Monterey County, and which are allocated to the District under the provisions of Chapter 6 of Part 0.5 of Division 1 of the Revenue and Taxation Code of the State of California, including all payments, subventions and reimbursements, if any, to the District specifically attributable to taxes lost by reason of tax exemptions and tax rate limitations; but excluding any taxes levied for the sole purpose of providing for payment of principal and interest on any voter-approved indebtedness incurred by the District, which taxes would not otherwise be subject to levy but for the issuance of such indebtedness;
- (b) all amounts levied by the District as a fee for connecting to the Enterprises, as such fee is established from time to time under the applicable laws of the State of California;
- (c) all income, rents, rates, fees, charges and other moneys received for, and all other gross income and receipts derived by the District from, the ownership and operation of the Enterprises or otherwise arising from the Enterprises;
- (d) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is limited by or under applicable law to the Enterprises;
- (e) the proceeds derived by the District directly or indirectly from the sale, lease or other disposition of a part of the Enterprises as permitted hereunder; and

- (f) amounts transferred from the Rate Stabilization Fund to the Enterprise Funds in any Fiscal Year in accordance herewith.

The term “Gross Revenues” does not include (i) customers’ deposits or any other deposits subject to refund until such deposits have become the property of the District, and (ii) the proceeds of any special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the District relating to the Enterprises.

“Indenture” means this Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture pursuant to the provisions hereof.

“Independent Accountant” means any accountant or firm of such accountants appointed and paid by the District, and who, or each of whom (a) is in fact independent and not under domination of the District; (b) does not have any substantial interest, direct or indirect, with the District; and (c) is not connected with the District as an officer or employee of the District, but who may be regularly retained to make annual or other audits of the books of or reports to the District.

“Interest Payment Date” means June 1 and December 1 in each year, beginning December 1, 2015, and continuing so long as any Bonds remain Outstanding.

“Net Revenues” means, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Costs coming payable during such period.

“Nominee” means (a) initially, Cede & Co. as nominee of DTC, and (b) any other nominee of the Depository designated pursuant to Section 2.04(a).

“Office” means, with respect to the Trustee, the corporate trust office of the Trustee at the address set forth in Section 9.09, or at such other or additional offices as may be specified by the Trustee in writing to the District; except that with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term means the office or agency of the Trustee at which, at any particular time, its corporate trust agency business is conducted.

“Operation and Maintenance Costs” means costs paid or incurred by the District for maintaining and operating the Enterprises, determined in accordance with generally accepted accounting principles, including but not limited to (a) all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Enterprises in good repair and working order, (b) all administrative costs of the District that are charged directly or apportioned to the operation of the Enterprises, such as salaries and wages of employees, overhead, taxes (if any) and insurance, and (c) administrative costs which the District is required to pay hereunder with respect to the Bonds. “Operating and Maintenance Costs” do not include (i) payments of debt service on bonds, notes, contracts or other obligations issued by the District with respect to the Enterprises, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other book-keeping entries of a similar nature.

“Original Purchaser” means BOSC, Inc., as the original purchaser of the Bonds upon their delivery by the Trustee on the Closing Date.

“Outstanding”, when used as of any particular time with reference to Bonds, means all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the District has been discharged in accordance with Section 9.03; (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to this Indenture; and (d) Bonds which are required to be disregarded and not deemed Outstanding under Section 9.05.

“Owner”, when used with respect to any Bond, means the person in whose name the ownership of such Bond shall be registered on the Registration Books.

“Parity Debt Documents” means all leases, installment sale agreements, trust agreements, indentures of trust and other documents prescribing the terms and provisions applicable to any issue of Parity Debt.

“Parity Debt” means, all bonds, notes, loan agreements, installment sale agreements, leases or other obligations of the District payable from and secured by a pledge of and lien upon the Net Revenues issued or incurred on a parity with the Bonds under Section 5.09.

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

- (a) Federal Securities;
- (b) obligations of any federal agency which represent full faith and credit of the United States of America, or which are otherwise rated “AAA” by S&P at the time of investment;
- (c) U.S. dollar denominated deposit accounts federal funds and banker’s acceptances with domestic commercial banks, which may include the Trustee, its parent holding company, if any, and their affiliates, which have a rating on their short term certificates of deposit on the date of purchase of “A” or better by S&P at the time of investment, maturing no more than 360 days after the date of purchase, provided that ratings on holding companies are not considered as the rating of the bank;
- (d) commercial paper which is rated at the time of purchase in the single highest classification, “A” or better by S&P at the time of investment, and which matures not more than 270 calendar days after the date of purchase;

- (e) investments in a money market fund, including those of an affiliate of the Trustee, rated in the highest short-term rating category by S&P at the time of investment, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee or such holding company provide investment advisory or other management services;
- (f) investment agreements with financial institutions whose long-term general credit rating is A or better from S&P at the time of investment, by the terms of which the Trustee may withdraw funds if such rating falls below “A”; and
- (g) the Local Agency Investment Fund of the State of California, created under Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

“Rate Stabilization Fund” means any fund established and held by the District as a fund for the stabilization of rates and charges imposed by the District with respect to the Enterprises, which fund is established, held and maintained in accordance with Section 5.08.

“Record Date” means, with respect to any Interest Payment Date, the 15th calendar day of the month preceding such Interest Payment Date.

“Refunding Bond Law” means Articles 10 and 11 of Chapter 3 of Part 1 of Division two of Title 5 of the California Government Code, commencing with Section 53570 of said Code, as in effect on the Closing Date or as thereafter amended from time to time.

“Registration Books” means the books maintained by the Trustee under Section 2.07 for the registration and transfer of ownership of the Bonds.

“Requisition of the District” means a requisition in writing signed by the General Manager or any other officer of the District duly authorized by the Board of Directors for that purpose.

“Securities Depositories” means DTC; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the District may designate in a Request of the District delivered by the District to the Trustee.

“Series A Bonds” means the Marina Coast Water District 2015 Senior Lien Enterprise Revenue Refunding Bonds, Tax-Exempt Series A, issued in the aggregate principal amount of \$29,840,000 and at any time Outstanding hereunder.

“Series A Costs of Issuance Fund” means the fund by that name established and held by the Trustee under Section 3.03.

“Series B Bonds” means the Marina Coast Water District 2015 Senior Lien Enterprise Revenue Refunding Bonds, Federally Taxable Series B, issued in the aggregate principal amount of \$1,115,000 and at any time Outstanding hereunder.

“Series B Costs of Issuance Fund” means the fund by that name established and held by the Trustee under Section 3.04.

“S&P” means Standard & Poor's Corporation, of New York, New York, and its successors.

“Supplemental Indenture” means any indenture, agreement, resolution or other instrument hereafter duly adopted or executed in accordance with the provisions of Section 7.01.

“Net Revenues” means, for any period, an amount equal to all of the Net Revenues received during such period minus the amount required to pay Debt Service coming payable during such period.

“Tax Code” means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the Closing Date, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under said Code.

“Term Bonds” means the Series A Bonds which mature on June 1, 2037.

“Trustee” means MUFG Union Bank, N.A., as Trustee hereunder, or any successor thereto appointed as Trustee hereunder in accordance with the provisions of Article VI.

“2006 Certificates” means the \$42,310,000 aggregate principal amount of Enterprise Revenue Certificates of Participation, Series 2006 evidencing the direct, undivided fractional interests of the owners thereof in the 2006 Installment Payments.

“2006 Installment Payments” means all payments required to be paid by the District under Section 4.4 of the 2006 Installment Sale Agreement.

“2006 Installment Sale Agreement” means the Installment Sale Agreement dated as of August 1, 2006, between the Public Property Financing Corporation of California and the District, as originally executed together any duly authorized and executed amendments thereto.

“2010 Bond Indenture” means the Indenture of Trust dated as of December 1, 2010, between the District and Union Bank, N.A., as trustee for the 2010 Bonds.

“2010 Bonds” means the of \$8,495,000 aggregate original principal amount of bonds of the District designated the “Marina Coast Water District 2010 Subordinate Enterprise Revenue Refunding Bonds” and issued under the 2010 Bond Indenture.

“Wastewater Enterprise” means the entire wastewater collection, treatment and disposal system owned or operated by the District, including but not limited to all

facilities, properties and improvements at any time owned or operated by the District for the collection, treatment and disposal of wastewater within the service area of the District, together with any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto hereafter acquired, constructed or installed by the District.

“Wastewater Fund” means the fund or funds established and held by the District with respect to the Wastewater Enterprise for the deposit of Gross Revenues from the Wastewater Enterprise.

“Water Enterprise” means the entire water supply, storage and distribution system of the District, including but not limited to all facilities, properties and improvements at any time owned, controlled or operated by the District for the supply, treatment and storage of water to residents of the District and adjacent areas, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the District.

“Water Fund” means the fund or funds established and held by the District with respect to the Water Enterprise for the deposit of Gross Revenues from the Water Enterprise.