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11/08/10
11/22/10
11/23/10

NEW ISSUE
FULL BOOK ENTRY

RATING: _____: "____"

PRELIMINARY OFFICIAL STATEMENT, DATED _____, 2010

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and is not taken into account in computing the alternative minimum tax imposed on corporations. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."

\$_____,000*

MARINA COAST WATER DISTRICT

2010 SUBORDINATE ENTERPRISE REVENUE REFUNDING BONDS

Dated: Date of Delivery

Due: June 1, as shown below

The captioned bonds (the "Bonds") are being issued by the Marina Coast Water District (the "District") under an Indenture of Trust, to be dated as of December 1, 2010 (the "Indenture"), between the District and Union Bank, N.A., San Francisco, California, as trustee (the "Trustee"). Proceeds of the Bonds will be used to (i) refinance an existing promissory note of the District; (ii) fund a debt service reserve fund for the Bonds; and (iii) pay the costs of issuing the Bonds.

The Bonds will be delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to ultimate purchasers ("Beneficial Owners") in the denomination of \$5,000 of principal due on a single maturity date or any integral multiple thereof, under the book-entry system maintained by DTC. Beneficial Owners will not be entitled to receive delivery of certificates representing their ownership interest in the Bonds. Interest on the Bonds will be payable on June 1 and December 1 of each year, commencing _____ 1, 20____, by the Trustee to DTC for subsequent disbursement to DTC participants, so long as DTC or its nominee remains the registered owner of the Bonds.

The Bonds will be subject to redemption prior to maturity. See "THE BONDS - Early Redemption."

The Bonds will be special obligations of the District and will be payable exclusively from Surplus Revenues (as defined in this Official Statement) of the water and wastewater systems of the District and from amounts on deposit in certain funds and accounts established under the Indenture. The District has incurred, and may in the future incur, obligations secured on a basis senior to the Bonds and may in the future incur obligations secured by Surplus Revenues on a parity with the Bonds, provided that the conditions set forth in the Indenture are met. See "RISK FACTORS" and "SECURITY FOR THE BONDS; PARITY DEBT - Parity Debt" and "SENIOR DEBT."

THE BONDS WILL BE SPECIAL OBLIGATIONS OF THE DISTRICT LIMITED SOLELY TO SURPLUS REVENUES. UNDER NO CIRCUMSTANCES WILL THE DISTRICT BE REQUIRED TO ADVANCE MONEYS DERIVED FROM ANY SOURCE OF INCOME OTHER THAN SURPLUS REVENUES AND OTHER SOURCES SPECIFICALLY IDENTIFIED HEREIN FOR THE PAYMENT OF THE BONDS AND SUCH OTHER AMOUNTS, AND NO OTHER FUNDS OR PROPERTY OF THE DISTRICT WILL BE LIABLE FOR THE PAYMENT OF THE BONDS.

This cover page contains certain information for quick reference only. It is not intended to be a summary of all factors relating to an investment in the Bonds. Investors should review the entire Official Statement before making any investment decision.

MATURITY SCHEDULE

(See inside cover)

The Bonds are offered when, as and if issued, and accepted by the Underwriter, subject to approval as to legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Underwriter by Greenberg Traurig, LLP and for the District by Noland Hamerly Etienne & Hoss, a Professional Corporation, General Counsel to the District. It is anticipated that the Bonds will be available for delivery in book-entry form on or about _____, 2010.

HUTCHINSON, SHOCKEY, ERLEY & CO.

* Subject to change.

MATURITY SCHEDULE*

Base CUSIP[†] Number: _____

\$_____,000 Series Bonds

<u>Maturity (June 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP[†] Number</u>
2011	\$_____,000	%	%	
2012	_____,000			
2013	_____,000			
2014	_____,000			
2015	_____,000			
2016	_____,000			
2017	_____,000			
2018	_____,000			
2019	_____,000			
2020	_____,000			
2021	_____,000			
2022	_____,000			
\$_____,000 _____% Term Bonds Due June 1, 20__ ÷ Yield _____%				
\$_____,000 _____% Term Bonds Due June 1, 20__ ÷ Yield _____%				

* Subject to change.

† Copyright 2010, American Bankers Association. CUSIP data are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are provided for convenience of reference only. Neither the District nor the Underwriter assumes any responsibility for the accuracy of these CUSIP data.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No Offering May Be Made Except by this Official Statement. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations with respect to the Bonds other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the District or any other parties described in this Official Statement.

Use of this Official Statement. This Official Statement is submitted in connection with the sale of the Bonds referred to in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract with the purchasers of the Bonds.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness.

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

Document References and Summaries. All references to and summaries of the Indenture, the Installment Purchase Agreement or other documents contained in this Official Statement are subject to the provisions of those documents and do not purport to be complete statements of those documents.

Bonds are Exempt from Securities Laws Registration. The issuance and sale of the Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the issuance and sale of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933, as amended, and Section 3(a)(12) of the Securities Exchange Act of 1934, as amended.

Stabilization of Prices. In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

Estimates and Projections. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

Website. The District maintains a website. However, the information presented on the website is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

MARINA COAST WATER DISTRICT

BOARD OF DIRECTORS

Kenneth K. Nishi, President
William Lee, Vice President
Thomas P. Moore, Director
Dan Burns, Director
Howard Gustafson, Director

DISTRICT STAFF

Jim Heitzman, General Manager
Kelly Cadiante, Director of Administrative Services
Suresh Prasad, Director of Finance

SPECIAL SERVICES

General Counsel

Noland Hamerly Etienne & Hoss,
A Professional Corporation

Bond Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Trustee

Union Bank, N.A.
San Francisco, California

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OFFICIAL STATEMENT

\$ _____ *

MARINA COAST WATER DISTRICT
2010 SUBORDINATE ENTERPRISE REVENUE REFUNDING BONDS

INTRODUCTION

This Official Statement, including the cover page, inside cover and appendices, is provided to furnish information in connection with the sale by the Marina Coast Water District (the “District”) of its 2010 Subordinate Enterprise Revenue Refunding Bonds (the “Bonds”). This Introduction contains a brief summary of certain information contained in this Official Statement. It is not intended to be complete and is qualified by the more detailed information contained elsewhere in this Official Statement. Definitions of certain terms used in this Official Statement are set forth in APPENDIX B - “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

The District. The District is a county water district organized in 1960 under the provisions of the County Water District Law. The District provides water and wastewater services to customers within the District. See “THE DISTRICT AND THE ENTERPRISES.” For selected financial, economic and demographic information about the District, also see “THE DISTRICT AND THE ENTERPRISES.” The audited financial statements of the District for the fiscal year ended June 30, 2009 are attached as APPENDIX A.

Authority for Issuance. The Bonds are being issued 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 and an Indenture of Trust (the “Indenture”), to be dated as of December 1, 2010, between the District and Union Bank, N.A., San Francisco, California, as trustee (the “Trustee”).

Use of Proceeds. The proceeds of the Bonds will be used to (i) prepay an existing promissory note of the District; (ii) fund a debt service reserve fund for the Bonds; and (iii) pay the costs of issuing the Bonds. See “REFINANCING PLAN.”

Security for the Bonds. The Bonds will be payable from and secured by Surplus Revenues (as defined in this Official Statement) derived from the operation of the water and wastewater systems of the District (each an “Enterprise” and together, the “Enterprises”), on a basis subordinate to the pledge of Net Revenues (as defined in this Official Statement) to certain indebtedness that has been, and may in the future be, incurred by the District. See “SECURITY FOR THE BONDS; PARITY DEBT - Pledge of Surplus Revenues” and “SENIOR DEBT.”

Rate Covenant. In the Indenture, the District will covenant to fix, prescribe, revise and collect rates, fees and charges to generate sufficient Surplus Revenues to pay debt service on

* Subject to change.

the Bonds. See "SECURITY FOR THE BONDS; PARITY DEBT - Rate Covenant; Collection of Rates and Charges."

Parity Debt. The District will be authorized to incur additional obligations payable from Surplus Revenues on a parity basis with the Bonds. See "SECURITY FOR THE BONDS; PARITY DEBT - Parity Debt."

Limited Obligation. The Bonds will be special obligations of the District limited solely to Surplus Revenues. Under no circumstances will the District be required to advance moneys derived from any source of income other than the Surplus Revenues and other sources specifically identified herein for the payment of the Bonds and such other amounts, and no other funds or property of the District will be liable for the payment of the Bonds.

Definitive Statement. All descriptions and summaries of various documents in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements in this Official Statement are qualified in their entirety by reference to each document. Certain capitalized terms used in this Official Statement and not defined in this Official Statement have the meaning given them in APPENDIX B - "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

REFINANCING PLAN

Promissory Note

In order to finance the acquisition of land to be used for various public purposes of the District relating to the Enterprises, the District executed and delivered a Promissory Note Secured by Deed of Trust dated June 25, 2010, in the aggregate principal amount of \$7,351,786.00 (the "**Promissory Note**"). In order to provide funds to refund the Promissory Note and thereby realize debt service savings to the District, the Board of Directors of the District authorized the issuance of the Bonds. Proceeds of the sale of the Bonds will be applied by the District to prepay the Promissory Note in full not later than December 31, 2010.

Estimated Sources and Uses of Funds

The anticipated sources and uses of funds relating to the Bonds are as follows:

Sources:

Principal Amount of the Bonds	\$
Plus Net Original Issue Premium	
<i>Total Sources:</i>	\$

Uses:

Payment of Promissory Note	\$
Deposit to Reserve Fund	
Costs of Issuance ^(a)	
<i>Total Uses:</i>	\$

(a) Includes Underwriter's discount, Trustee fees, Bond Counsel fees, printing costs, rating agency fees and other related costs.

THE BONDS

Description

The Bonds will be dated their date of delivery, will bear interest at the rates per annum set forth on the inside cover hereof from their date, payable semiannually on June 1 and December 1 (each an "**Interest Payment Date**"), commencing _____ 1, 20__, and will mature on the dates and in the amounts set forth on the inside cover hereof.

The Bonds will be issued only as one fully registered Bond for each maturity, in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("**DTC**"), as registered owner of all Bonds. The Bonds will be available to ultimate purchasers ("**Beneficial Owners**") in the denomination of \$5,000 of principal due on a single maturity date or any integral multiple thereof, under the book-entry system maintained by DTC. Beneficial Owners will not be entitled to receive delivery of certificates representing their ownership interest in the Bonds. Ownership may be changed only in accordance with the procedures of DTC. **While the Bonds are held in the book-entry only system of DTC, all payments will be made to Cede & Co., as the registered Owner of the Bonds.** See APPENDIX E - "BOOK-ENTRY ONLY SYSTEM."

Early Redemption*

Optional Redemption. The Bonds maturing on or before June 1, 20__, will not be subject to redemption prior to their respective stated maturities. The Bonds maturing on or after June 1, 20__, will be subject to redemption in whole, or in part among maturities on such basis as set forth in a Certificate of the District filed with the Trustee, and in any event by lot within a maturity, at the option of the District, from any available source of funds, as a whole on date or in part on any Interest Payment Date, commencing June 1, 20__, at a redemption price

* Subject to change.

equal to 100% of the principal amount thereof to be redeemed together accrued interest to the date of redemption, without premium.

Notice of Redemption. The Trustee will provide notice of any redemption to DTC as described in APPENDIX E - "BOOK-ENTRY-ONLY SYSTEM" at least 30 but not more than 60 days prior to the date fixed for redemption.

Manner of Redemption. Whenever provision is made for the redemption of less than all of the Bonds, the Bonds to be redeemed will be selected by DTC as described in APPENDIX E - "BOOK-ENTRY-ONLY SYSTEM." 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 Bonds which may be separately redeemed.

Effect of Redemption. From and after the date fixed for redemption, if notice of redemption has been duly provided and funds available for the payment of the principal of and interest (and premium, if any) on the Bonds so called for redemption have been duly provided, such 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.

SECURITY FOR THE BONDS; PARITY DEBT

The Bonds and any Parity Debt will be secured by a first pledge of all of Surplus Revenues. See "Parity Debt." In addition, the Bonds will be secured by a pledge of all of the moneys in the Bond Fund and the Reserve Fund, including all amounts derived from the investment of such moneys. So long as any of the Bonds are Outstanding, Surplus Revenues and such moneys may not be used for any other purpose, except that out of Surplus Revenues there may be apportioned such sums, for such purposes, as are expressly permitted by the Indenture. **The Bonds will be special obligations of the District limited solely to Surplus Revenues. Under no circumstances will the District be required to advance moneys derived from any source of income other than the Surplus Revenues and other sources specifically identified herein for the payment of the Bonds and such other amounts, and no other funds or property of the District will be liable for the payment of the Bonds.**

"**Surplus Revenues**" means, for any period, an amount equal to all of the Gross Revenues received during such period minus (a) the amount required to pay all Operation and Maintenance Costs coming payable during such period, (b) the amount required to pay the 2006 Installment Payments coming payable during such period, (c) the amount required to pay debt service coming due during such period on any obligations issued on a parity with the 2006 Installment Payments in accordance with the 2006 Installment Sale Agreement ("**Senior Parity Debt**") and, with the 2006 Installment Payments, ("**Senior Debt**") and (d) the amount (if any) which is required during such period to replenish the reserve account established with respect to the 2006 Installment Payments or with respect to any Senior Parity Debt.

"**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; and
- (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 by the Indenture.

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.

"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 bookkeeping entries of a similar nature.

"2006 Installment Payments" means all payments required to be paid by the District on any date under the 2006 Installment Sale Agreement, including any amounts payable upon delinquent installments and including any prepayment thereof under 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.

Deposit and Transfer of Revenues

The District will deposit all of the Gross Revenues immediately on receipt to certain funds held by it (the **“Enterprise Funds”**) and will apply amounts in the Enterprise Funds solely as set forth in the 2006 Installment Sale Agreement and in the documents authorizing the issuance of Senior Parity Debt and in the Indenture and in the documents authorizing the issuance of Parity Debt.

Pursuant to the 2006 Installment Sale Agreement, the District will apply amounts on deposit in the Enterprise Funds to pay when due the following amounts in the following order of priority:

all Operation and Maintenance Costs;

the 2006 Installment Payments and all payments of principal of and interest on Senior Parity Debt;

the amount of any deficiency in the reserve fund established with the Trustee relative to the 2006 Installment Sale Agreement and in any reserve fund established for Senior Parity Debt; and

any other payments required to comply with the provisions of the 2006 Installment Sale Agreement and any documents related to any Senior Parity Debt.

Subject to the foregoing, so long as no event of default has occurred and is continuing under and as defined in the 2006 Installment Sale Agreement, the District will withdraw amounts on deposit in the Enterprise Funds and apply such amounts at the times and for the purposes, and in the priority, as follows:

On or before the 5th Business Day of the month preceding each Interest Payment Date, the District will withdraw from the Enterprise Funds and pay to the Trustee for deposit into the Bond Fund an amount which, together with other available amounts then on deposit in the Bond Fund, is at least equal to the aggregate amount coming due and payable on the Bonds on such Interest Payment Date. The Trustee will apply amounts in the Bond Fund solely for the purpose of paying the interest on the Outstanding Bonds when due and payable (including accrued interest on any Bonds purchased or redeemed), and paying the principal of the Bonds at the maturity or prior redemption thereof.

If the amount on deposit in the Reserve Fund at any time falls below the Reserve Requirement, the District will promptly withdraw the amount of such insufficiency from available funds in the Enterprise Funds and transfer such amount to the Trustee for deposit in the Reserve Fund. No deposit need be made in the Reserve Fund so long as the balance therein at least equals the Reserve Requirement. If the amount on deposit in the Reserve Fund exceeds the Reserve Requirement, the Trustee will transfer such excess amount to the Bond Fund. If the amounts on deposit in the Bond Fund on any Interest Payment Date are insufficient to pay the principal of and interest on the Bonds then coming

due, the Trustee will immediately notify the District in writing of such fact and withdraw the amount of such insufficiency from the Reserve Fund and transfer it to the Bond Fund. See "Reserve Fund."

Reserve Fund for Bonds

Initial Deposit; Reserve Requirement. In order to further secure the payment of principal of and interest on the Bonds, a portion of the proceeds of the sale of the Bonds will be deposited into the Reserve Fund in an amount equal to the "**Reserve Requirement**."

"**Reserve Requirement**" is defined in the Indenture to mean an amount equal to the maximum amount of principal of and interest on the Bonds coming due and payable in the current or any future Bond Year (being the period commencing on June 2 of a year and ending on June 1 of the succeeding year).

Uses of Money in the Reserve Fund. As described above, if the amounts on deposit in the Bond Fund on any Interest Payment Date are insufficient to pay the principal of and interest on the Bonds then coming due, the Trustee is required under the Indenture to withdraw the amount of such insufficiency from the Reserve Fund and transfer it to the Bond Fund.

Replenishment of the Reserve Fund. As also described above, if at any time the amount on deposit in the Reserve Fund is less than the Reserve Requirement, the District is required to pay to the Trustee the amount of such deficiency as provided in the Indenture. Any amounts on deposit in the Reserve Fund at any time in excess of the Reserve Requirement will be transferred by the Trustee to the Bond Fund.

Parity Debt. In connection with the issuance of any Parity Debt, the District may (*but is not required to*) deposit into the Reserve Fund an amount of funds required to increase the balance in the Reserve Fund and all accounts therein to an amount equal to Maximum Annual Debt Service on the Bonds and all outstanding issues of Parity Debt which are secured by the Reserve Fund. In that event, amounts in the Reserve Fund will constitute a common reserve for the equal and proportionate security of the Bonds and all such issues of Parity Debt. Any deposit made under this paragraph may be made into one or more separate accounts within the Reserve Fund, all of which will be accounted for as part of a common reserve.

Rate Covenant; Collection of Rates and Charges

The District has made the following rate covenants in the Indenture.

Gross Revenues. The District will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished separately by each of the Enterprises during each Fiscal Year (July 1 through June 30) which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues from such Enterprise sufficient to pay the following amounts in the following order of priority:

- (a) All Operation and Maintenance Costs of such Enterprise estimated by the District to become due and payable in such Fiscal Year;
- (b) All payments allocable to such Enterprise which are required to be made in such Fiscal Year under the 2006 Installment Sale Agreement and under the documents authorizing the issuance of any Senior Parity Debt, including payments required to restore the balance in the reserve fund

established with respect to the 2006 Installment Sale Agreement and any such obligations;

- (c) All payments of principal of and interest on the Bonds coming due and payable in such Fiscal Year, which are allocable to such Enterprise;
- (d) All amounts, if any, required to restore the balance in the Reserve Fund to the full amount of the Reserve Requirement; and
- (e) 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 during such Fiscal Year.

Surplus Revenues. The District covenants in the Indenture to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished separately by each of the Enterprises during each Fiscal Year which are sufficient to yield Surplus Revenues of such Enterprise which are at least equal to 150% of the amount of principal of and interest on the Outstanding Bonds and outstanding Parity Debt coming due and payable in such Fiscal Year with respect to such Enterprise. In the event that the actual collection of Surplus Revenues based on such rates, fees and charges is insufficient to yield Surplus Revenues which meet such requirements, such event will not constitute an Event of Default unless it has continued uncured for a period of at least 12 months.

Parity Debt

Existing Parity Debt. The District has no other obligation that is secured by a pledge of Surplus Revenues. The District has, however, incurred obligations which are senior to the Bonds as described below. See "SENIOR DEBT."

Future Parity Debt. The District may issue or incur bonds, notes or other obligations which are secured by a pledge of and lien on Surplus Revenues on a parity with the pledge and lien which secure the Bonds ("**Parity Debt**"), provided that certain conditions are satisfied, including the following:

No Event of Default (or no event with respect to which notice has been given and which, once all notice of grace periods have passed, would constitute an Event of Default) has occurred and is continuing; and

The Surplus 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, at least equal 150% of the amount of Maximum Annual Debt Service.

SENIOR DEBT

Existing Senior Debt

The only other indebtedness of the District currently secured in any respect by the Gross Revenues is the 2006 Installment Sale Agreement.

Pledge of Net Revenues

Pursuant to the 2006 Installment Sale Agreement, the District has purchased certain facilities described therein at the purchase price specified therein by making the 2006 Installment Payments specified therein. The District is obligated to make the 2006 Installment Payments solely from Net Revenues.

“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 becoming payable during such period.

Rate Covenant

In the 2006 Installment Sale Agreement, the District has agreed to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished separately by each of the Enterprises during each Fiscal Year which are sufficient to yield Net Revenues of such Enterprise which are at least equal to 125% of the amount of 2006 Installment Payments and the principal of and interest on Senior Parity Debt calculated for such Fiscal Year with respect to such Enterprise.

Senior Parity Debt

Under the 2006 Installment Sale Agreement, the District may issue or incur additional obligations on a parity lien with the Senior Parity Debt upon satisfaction of all of the following:

Net Revenues for the latest Fiscal Year for which audited financial statements have been prepared, as evidenced by both a calculation prepared by the District and a special report prepared by an independent accountant or an independent financial consultant, are at least equal to 125% of the 2006 Installment Payments and debt service for Senior Parity Debt for such Fiscal Year.

Net Revenues for the latest Fiscal Year for which audited financial statements have been prepared, including adjustments to give effect as of the first day of such Fiscal Year to increases or decreases in rates and charges for the Enterprises which have been approved and which are in effect as of the date of calculation, as evidenced by a calculation prepared by the District, are at least equal to 125% of the sum of: (i) the 2006 Installment Payments and debt service for Senior Parity Debt for such Fiscal Year, plus (ii) debt service which would have accrued on the Senior Parity Debt then proposed to be issued and on the Senior Parity Debt issued since the end of such Fiscal Year, assuming all such Senior Parity Debt had been issued at the beginning of such Fiscal Year.

Estimated Net Revenues for the then current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest date of any uncompleted additions, betterments, extensions or improvements to the

Enterprises, the acquisition and construction of which is to be paid for with the proceeds of any Senior Parity Debt (a "**Parity Project**") will be completed and ready for operation, as evidenced by a certificate of an authorized representative of the District (a "**District Representative**"), including (after giving effect to the completion of all such uncompleted Parity Projects) an allowance for estimated Net Revenues for each of such Fiscal Years arising from any increase in the income, rents, fees, rates and charges estimated to be fixed, prescribed or received for the Enterprises and which are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by a certificate of a District Representative, are at least equal to 125% of the 2006 Installment Payments and the estimated debt service for Senior Parity Debt, calculated as required by the 2006 Installment Sale Agreement, for each of such Fiscal Years, after giving effect to the issuance of the Senior Parity Debt estimated to be required to be executed or issued to pay the costs of completing all uncompleted Parity Projects within such Fiscal Years, assuming that the maturities, interest rates and proportionate principal repayment provisions of the Senior Parity Debt are similar to the Senior Parity Debt last issued by the District or then being issued for the purpose of acquiring and constructing any of such uncompleted Parity Projects.

Notwithstanding the foregoing, Senior Parity Debt may be issued to refund the 2006 Installment Payments or outstanding Senior Parity Debt if, after giving effect to the application of the proceeds thereof, total debt service will not be increased in any Fiscal Year.

DEBT SERVICE SCHEDULE AND COVERAGE

Scheduled 2006 Installment Payments, coverage for the 2006 Installment Payments, debt service on the Bonds and coverage for the Bonds after payment of the 2006 Installment Payments is shown in the following table:

<u>Bond Year Ending June 1</u>	<u>2006 Installment Payments</u>	<u>Coverage By Net Revenues (a)</u>	<u>Principal Amount*</u>	<u>Interest Amount (b)</u>	<u>Coverage by Surplus Revenues (c)</u>	<u>Total</u>
2011	\$	x	--	\$	x	\$
2012			_____,000			
2013			_____,000			
2014			_____,000			
2015			_____,000			
2016			_____,000			
2017			_____,000			
2018			_____,000			
2019			_____,000			
2020			_____,000			
2021			_____,000			
2022			_____,000			
Total	\$		\$_____,000	\$		\$

* Subject to change.

- (a) Based on amount shown under the table entitled "Projected Operating Results Fiscal Year Ended June 30" on page 26 for 201_ - \$_____.
- (b) Interest is estimated at _____% per annum.
- (c) Based on amount described in footnote (a) minus the principal amount and interest for the Bonds for the corresponding Bond Year.

THE DISTRICT AND THE ENTERPRISES

General

The District is a county water district organized in 1960 under the provisions of the County Water District Law. The District has the powers under the County Water District Law to, among other things, provide potable water, wastewater treatment and collection and reclaimed water services. In connection therewith, the District has the powers of eminent domain, to contract, to construct works, to fix rates and charges for commodities or services furnished and to incur indebtedness.

The District was formed in 1960 to provide potable water to the City of Marina (the "City"), acquiring the assets of a private water company in 1966 and commencing potable water service within the City (such area being "Central Marina"). The District operates three potable water wells and over 28 miles of water pipe to serve Central Marina.

In 1964, the District constructed a trunk sewer system and treatment plant and commenced wastewater service within the City. The District owns approximately forty miles of wastewater lines to serve Central Marina. Wastewater from Central Marina is conveyed to an interceptor owned by the Monterey Regional Water Pollution Control Authority ("MRWPCA"). MRWPCA treats such wastewater at its regional treatment facility.

The District has been the water supplier and wastewater service provider within boundaries of the former Fort Ord Army Base but outside the District boundaries (the “**Ord Community**”) pursuant to a contract (the “**FORA Agreement**”) with the Fort Ord Reuse Agency, a thirteen member joint powers authority created to convert Fort Ord Army Base to civilian use (“**FORA**”), since 1997. The District took title to the Ord Community water system in 2001. While the District may ultimately annex the Ord Community, the District has not officially begun such process. The District operates three potable water wells and approximately 75 miles of water pipeline to serve the Ord Community. The District also owns a separate approximately 71 mile wastewater collection system which serves the Ord Community. The District discharges wastewater collected in the Ord Community to MRWPCA interceptors for treatment at MRWPCA’s regional treatment facility.

Service Area

The District currently includes approximately 4.50 square miles consisting of the City. In addition, the District serves the area formerly within the boundaries of the Fort Ord Army Base, which is approximately 45 square miles. The population of the District is approximately 34,000 and the current population within the Ord Community is approximately 16,000.

As required by State law, the Local Agency Formation Commission in Monterey County has established a “sphere of influence” for the District, which defines the area, which may be annexed to the District. The land area between the present service area and the sphere of influence boundary is approximately 2.8 square miles, making the total sphere of influence of the District approximately 7.3 square miles not including the Ord Community. The sphere of influence includes two major undeveloped areas - Armstrong Ranch and Lonestar Property. The District purchased a portion of the Armstrong Ranch (approximately 224 acres) in June 2010.

Governance and Management

The District is governed by a 5-member board of directors (the “**Board of Directors**”), the members of which are elected from separate divisions of the District for staggered 4-year terms. The current Board of Directors members, the expiration dates of their terms and their occupations are set forth below.

<i>Board of Directors Member</i>	<i>Expiration of Term</i>	<i>Occupation</i>
Kenneth K. Nishi, President	November 2012	Retired/Self Employed
William Lee, Vice President	November 2010	Retired Military Officer
Thomas P. Moore, Director	November 2010	Professor
Dan Burns, Director	November 2012	Retired Operations Manager
Howard Gustafson, Director	November 2010	Engineer

Day-to-day management of the District is delegated to the General Manager. Set forth below is a brief resume of the General Manager:

Jim Heitzman, General Manager of the District since 20__, has over 35 years of water and wastewater experience. Mr. Heitzman’s career includes service with the City of San Diego in both the water and wastewater divisions where he was instrumental in the implementation of several capital improvement projects of over \$100,000,000.

Prior to joining the District, Mr., Heitzman served as the Assistant General Manager with MRWPCA. While at MRWPCA, Mr. Heitzman supported and promoted Operator certifications and increased the number of Grade V Operators from one to seven. Mr. Heitzman holds a

Grade V wastewater certification from the California State Water Resources Control Board and graduated with a Master's Degree in Public Administration from Golden Gate University.'

Employees and Employee Benefits

The District had, as of November 20, 2010, 38 full-time employees. The District and the employees of the District contribute to the California Public Employees' Retirement System (CalPERS), a multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The District has continuing obligations under such plan. The District is required annually to contribute to CalPERS at an actuarially determined rate.

The Governmental Accounting Standards Board ("**GASB**") recently published Statement No. 45, requiring governmental agencies that fund post-employment benefits on a pay-as-you-go basis, such as the District (beginning for the District with the Fiscal Year ending June 30, 2010), to account for and report the outstanding obligations and commitments related to such post-employment benefits in essentially the same manner as for pensions. The District is in compliance with GASB Statement No. 45.

Of the 38 employees of the District, 35 are included in the bargaining unit represented by the Teamsters Local 890 and Marina Coast Water District Employee Association (the "**Association**"). The contract with the Association expired on June 30, 2010 and has been extended to a month-to-month contract. A new contract negotiation is ongoing. The District has never experienced a work stoppage or other employee action.

Budget Process

The proposed budget is prepared by District staff and sent for review by the Board at several public meetings beginning in January of the prior Fiscal Year. After these public meetings the Board approves a final budget by June 30 for the following Fiscal Year.

Pursuant to the FORA Agreement, the District is required to submit to FORA a proposed budget for the portion of the Enterprises which serve the Ord Community (the "**Fort Ord Budget**") which includes an operational action budget for one year. The proposed Fort Ord Budget must be submitted by March 30th of each year. By June 30th, FORA must respond to the submitted Fort Ord Budget by adopting an ordinance or resolution which approves the Fort Ord Budget or by disputing elements of the Fort Ord Budget. If FORA disputes elements of the Fort Ord Budget, FORA will identify each disputed element, state the reasons for the dispute, and state an acceptable resolution to FORA. Within two weeks after FORA disputes the Fort Ord Budget, the District may adopt FORA's proposed changes or may refer the matter to mediation.

The District budget for Fiscal Year ending June 30, 2011 was adopted on August 10, 2010 by the District. FORA adopted the Fort Ord Budget by resolution on August 13, 2010.

Annual audits for all District funds are conducted and normally completed by December 31 of the following Fiscal Year.

Water System and Wastewater System Insurance

The Management Services Administrator of the District manages insurance affairs using a combination of commercially purchased insurance, self-insurance, and risk transfer to protect the assets of the District.

The District currently carries the following types of commercial insurance on its water, sewer, and recreation operations:

- General Liability Insurance Policy
- Property Insurance Policy
- Auto Insurance Policy
- Munitions and Explosives of Concern (MEC) Insurance Policy

Other Outstanding Revenue Obligations

Other than the 2006 Installment Sale Agreement, the District has no revenue obligations outstanding. See "SENIOR DEBT."

Water System of the District

The Water System. The District has historically provided potable water and recycled water services (the "**Water System**") to the residents within the City through its Central Marina system, which lies at the northern end of the Salinas Valley on the Monterey Bay. The District has three wells which provide water to the Central Marina system from the deep aquifer underlying the Salinas Valley. The deep aquifer has not experienced seawater intrusion in recent years. Pursuant to an agreement with the Monterey County Water Resources Agency ("**MCWRA**"), the District has a contractual right to pump 3,020 acre feet of water for use in Central Marina, substantially in excess of current usage.

The District has three wells which serve the Ord Community from the 180-foot and 400-foot aquifers underlying the Salinas Valley. These aquifers have experienced seawater intrusion in recent years. Pursuant to agreements with MCWRA and FORA, the District has a contractual right to pump 6,600 acre feet of groundwater to serve the Ord Community.

The District owns a desalination plant that can produce approximately 300,000 gallons per day when operating. The District does not currently operate the desalination plant although the plant remains available to the District.

Historic Water Connections. The following table shows the growth in the number of water connections to the Water System for the five most recent Fiscal Years.

Marina Coast Water District Historic Water Connections

<i>Fiscal Year Ending June 30</i>	<i>Central Marina</i>	<i>Ord Community</i>	<i>Total</i>	<i>% Increase/ Decrease</i>
2010	3,888	3,901	7,789	-4.30%
2009	3,886	4,253	8,139	-0.05
2008	3,860	4,283	8,143	0.11
2007	3,870	4,264	8,134	0.78
2006	3,848	4,223	8,071	8.28

Source: The District.

Historic Water Deliveries. The following table presents a summary of historic water deliveries for the Water System in acre-feet per year for the five most recent Fiscal Years.

**Marina Coast Water District
Historic Water Deliveries In Acre Feet Per Year**

<i>Fiscal Year Ending June 30</i>	<i>Central Marina</i>	<i>Ord Community</i>	<i>Total</i>	<i>% Increase/ Decrease</i>
2010	1,908	2,058	3,966	-3.13%
2009	1,957	2,137	4,094	-6.40
2008	1,705	2,669	4,374	-2.63
2007	1,624	2,868	4,492	4.59
2006	1,786	2,509	4,295	2.53

Source: The District.

Historic Water Sales Revenues. The following table shows annual water sales revenues from water sales for the five most recent Fiscal Years.

**Marina Coast Water District
Historic Water Sales Revenues**

<i>Fiscal Year Ending June 30</i>	<i>Central Marina</i>	<i>Ord Community</i>	<i>Total</i>	<i>% Increase/ Decrease</i>
2010	\$3,523,886	\$3,977,968	\$7,501,854	2.14%
2009	3,323,616	4,020,939	7,344,555	9.83
2008	2,967,153	3,719,763	6,686,916	-0.30
2007	2,953,524	3,753,515	6,707,039	11.37
2006	2,688,254	3,334,072	6,022,326	18.03

Source: The District.

Largest Customers. The following table sets forth the largest customers of the Water System as of June 30, 2010 as determined by annual payments.

**Marina Coast Water District
Largest Water Customers**

<i>Customer</i>	<i>Area</i>	<i>Annual Payments</i>
Monterey Bay Military Housing	Ord Community	\$1,421,555
FOAM-RS (CSUMB Housing)	Ord Community	567,729
California State Univ Mtry	Ord Community	341,751
City of Marina	Ord Community	144,647
Army Commander/DLIFC	Ord Community	143,774
Sun Bay Apartments	Ord Community	109,436
Seaside Highlands H.O. A	Ord Community	107,514
MPUSD -Seaside High School	Ord Community	75,560
Mangold Property Mgmt.	Central Marina	41,804
Clark Realty Builders	Ord Community	41,066
TOTAL		\$2,994,836

Source: The District.

These largest customers accounted for approximately 40% of water sales from the Water System and approximately 31% of total District Gross Revenues in the Fiscal Year ending June 30, 2010.

Water System Rates and Charges. The District charges different water rates within Central Marina and the Ord Community. The District uses a tiered rate method to charge its customers. The District also charges its Ord Community customers a capital surcharge, which may be used to fund the debt service. The current retail water rates of the District which serve all District customers are shown in the following table.

**Marina Coast Water District
Retail Water Rates And Charges – Central Marina
Fiscal Year Ending 2011**

<u>Description</u>		
Meter Service Charge	\$17.11	Monthly
Tier 1 (0-8 (hundred cubic feet (“HCF”)))	2.08	Per HCF
Tier 2 (9-16 HCF)	2.53	Per HCF
Tier 3 (17+ HCF)	4.62	Per HCF

Source: The District.

**Marina Coast Water District
Retail Water Rates And Charges –Ord Community
Fiscal Year Ending 2011**

<u>Description</u>		
Meter Service Charge	\$16.31	Monthly
Tier 1 (0-8 HCF)	2.22	Per HCF
Tier 2 (9-16 HCF)	3.12	Per HCF
Tier 3 (17+ HCF)	4.02	Per HCF
Flat Rate Billing	80.40	Monthly
Capital Surcharge per equivalent dwelling unit (“EDU”)	20.00	Monthly

Source: The District.

The table below sets forth a comparison of the monthly water rates of the District and charges for a single-family residential user (based on 13 HCF per month) to those of nearby water purveyors as of July 2010:

<u>Community</u>	<u>Total Monthly Bill</u>
District - Central Marina	\$46.40
District - Ord Community	49.67
Cal-Am Monterey	111.68
Cal-Water Salinas	49.86
City of Seaside	113.21

Source: The District.

Collection Procedures. The District is on a monthly billing cycle for water, wastewater collection and recycled water service. A consolidated bill is sent out every month to District customers. Payment is due by the 15th day after the billing date and is considered delinquent if not paid by that date. If payment is not received, a delinquency message appears on a

reminder bill. All accounts not paid in full within 60 days of the billing date will be discontinued until full payment is made, including late penalties, a deposit fee of \$35.00 and a \$15.00 reconnection fee.

Projected Water Connections. The following table shows the increase in the number of water connections to the Water System projected by the District for the current and next four Fiscal Years.

**Marina Coast Water District
Projected Water Connections**

<i>Fiscal Year Ending June 30</i>	<i>Central Marina</i>	<i>Ord Community</i>	<i>Total</i>	<i>% Increase/ Decrease</i>
2015	3,888	4,979	8,867	2.75%
2014	3,888	4,742	8,630	2.69
2013	3,888	4,516	8,404	2.63
2012	3,888	4,301	8,189	2.57
2011	3,888	4,096	7,984	2.50

Source: The District.

Projected Water Deliveries. The District currently estimates that water deliveries for the current and next four fiscal years will be as follows.

**Marina Coast Water District
Projected Water Deliveries In Acre Feet Per Year**

<i>Fiscal Year Ending June 30</i>	<i>Central Marina</i>	<i>Ord Community</i>	<i>Total</i>	<i>% Increase/ Decrease</i>
2015	1,908	2,627	4,535	2.84%
2014	1,908	2,502	4,410	2.78
2013	1,908	2,382	4,290	2.72
2012	1,908	2,269	4,177	2.66
2011	1,908	2,161	4,069	2.59

Source: The District.

Projected Water Sales Revenues. The following table projects annual water sales revenues of the Water System, which projections are based on the increases in projected water deliveries described under “Projected Water Deliveries” and rates described under “Water System Rates and Charges.”

**Marina Coast Water District
Projected Water Sales Revenues**

<i>Fiscal Year Ending June 30</i>	<i>Central Marina</i>	<i>Ord Community</i>	<i>Total</i>	<i>% Increase/ Decrease</i>
2015	\$4,497,471	\$5,077,007	\$9,574,478	5.00%
2014	4,283,305	4,835,245	9,118,550	5.00
2013	4,079,339	4,604,995	8,684,334	5.00
2012	3,885,084	4,385,710	8,270,794	5.00
2011	3,700,080	4,176,866	7,876,947	5.00

Source: The District.

Historic Operating Results. The following table is a summary of operating results of the Water System for the last five Fiscal Years. These results have been derived from the Financial Statements attached hereto as APPENDIX A of the District but exclude certain receipts which are not included as Gross Revenues under the 2006 Installment Sale Agreement and certain non-cash items and include certain other adjustments. While the following table presents Gross Revenues and Operation and Maintenance Costs of the Central Marina water system and Ord Community water system on a combined basis, the District accounts for Gross Revenues and Operation and Maintenance Costs of the Central Marina water system and the Ord Community water system separately. See the Financial Statements attached hereto as APPENDIX A.

**Marina Coast Water District
Water System
Historic Operating Results
Fiscal Year Ended June 30**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Gross Revenues					
Water Services	\$7,501,854	\$7,344,555	\$6,686,916	\$6,707,039	\$6,022,326
Capacity and Connection Fees	709,070	758,770	392,968	387,590	234,810
Other Services and Fees	885,516	2,120,377	564,508	1,717,366	513,779
Interest Earned	469,618	863,933	1,060,442	1,383,756	349,929
Total Gross Revenues	9,566,058	11,087,635	8,704,834	\$10,195,751	\$7,120,844
Operation and Maintenance Costs					
General and Administrative	1,714,015	1,750,389	1,848,300	1,478,076	\$1,272,473
Operations and Maintenance	2,204,665	1,771,203	1,649,975	1,813,662	1,732,724
Laboratory	325,299	312,140	295,452	278,641	296,526
Conservation	297,283	264,490	255,024	201,110	183,875
Engineering	644,526	593,965	813,694	1,215,875	913,471
Total Operation and Maintenance Costs	5,185,788	4,692,187	4,862,445	\$4,987,364	\$4,399,069
Net Revenues	4,380,270	6,395,448	3,842,389	5,208,387	2,721,775
Payments for Promissory Note	--	--	--	--	676,254
2006 Installment Payments	2,033,538	2,032,538	2,035,738	1,365,504	--
Total Debt Service	2,033,538	2,032,538	2,035,738	1,365,504	676,254
Cash Available for Capital Projects or Other Purposes	\$2,346,732	\$4,362,910	\$1,806,651	\$3,842,883	\$2,045,521

Source: The District.

Projected Operating Results and Debt Service Coverage for Senior Debt. The estimated projected operating results for the Water System of the District for the Fiscal Years

ending June 30, 2011 through June 30, 2015 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. Such assumptions are material in the development of the District's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast, and such variations may be material.

**Marina Coast Water District
Water System
Projected Operating Results
Fiscal Year Ended June 30**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Gross Revenues					
Water Services	\$9,574,478	\$9,118,550	\$8,684,334	\$8,270,794	\$7,876,947
Capacity and Connection Fees	718,750	690,000	649,750	621,000	592,250
Other Services and Fees	1,129,509	1,075,723	1,024,498	975,713	929,250
Interest Earned	599,852	571,288	544,084	518,175	493,500
Total Gross Revenues	12,022,590	11,455,561	10,902,666	\$10,385,682	\$9,891,947
Operation and Maintenance Costs					
Operations and Administrative ³⁾	2,187,566	2,083,396	1,984,187	1,889,702	1,799,716
Operations and Administration	2,813,773	2,679,784	2,552,175	2,430,643	2,314,898
Laboratory	415,173	395,403	376,574	358,642	341,564
Conservation	379,417	361,349	344,142	327,755	312,147
Engineering	822,597	783,425	746,119	710,590	676,752
Total Operation and Maintenance Costs	6,618,526	6,303,358	6,003,198	\$5,717,331	\$5,445,077
Net Revenues	5,404,064	5,152,203	4,899,468	4,668,350	4,446,870
2006 Installment Payments	2,024,424	2,032,824	2,034,086	2,034,936	\$2,038,537
Total Debt Service	2,024,424	2,032,824	2,034,086	2,034,936	2,038,537
Coverage Ratio for 2006 Installment Payments	2.67x	2.53x	2.41x	2.29x	2.18x
Cash Available for Capital Projects or Other Purposes	\$3,379,640	\$3,119,379	\$2,865,382	\$2,633,414	\$2,408,333

Source: The District.

Future Water Supplies and Water System Improvements. Because of concern over the possibility of seawater intrusion in the 180-foot and 400-foot aquifers, the District is participating in various water supply projects, some with other water providers and public agencies overlying the Salinas groundwater basin and the neighboring Seaside groundwater basin. These projects include a recycled water project with MRWPCA, additional desalination facilities and a combination of both recycled water and desalination.

The District projects capital improvements to the Water System for existing and future users of approximately \$94,000,000 over the next five years. The District expects that such capital improvements will be funded by facility capacity fees, grants, loans, installment purchase agreements, and Gross Revenues.

[Describe in more detail desalination facility???

Wastewater System of the District

The Wastewater System. The District provides wastewater collection service to customers in the Central Marina and in the Ord Community service area. Wastewater is conveyed to interceptors owned by MRWPCA and is ultimately treated at the MRWPCA regional treatment plant.

Historic Wastewater Connections. The following table shows the growth in the number of wastewater connections to the Wastewater System for the five most recent Fiscal Years.

**Marina Coast Water District
Historic Wastewater Connections**

<i>Fiscal Year Ending June 30</i>	<i>Central Marina</i>	<i>Ord Community</i>	<i>Total</i>	<i>% Increase/ Decrease</i>
2010	3,888	3,901	7,789	-4.30%
2009	3,886	4,253	8,139	-0.05
2008	3,860	4,283	8,143	0.11
2007	3,870	4,264	8,134	0.78
2006	3,848	4,223	8,071	8.28

Source: The District.

Historic Wastewater System Usage. The following table summarizes the volume of wastewater treated for the five most recent Fiscal Years.

**Marina Coast Water District
Historic Wastewater System Usage
In Daily Average Flow In Million Gallons Per Day (“MGD”)**

<i>Fiscal Year Ending June 30</i>	<i>Central Marina</i>	<i>Ord Community</i>	<i>Total</i>	<i>% Increase/ Decrease</i>
2010	1.02	1.10	2.12	-3.20%
2009	1.05	1.14	2.19	-6.41
2008	0.91	1.43	2.34	-2.90
2007	0.87	1.54	2.41	4.78
2006	0.96	1.34	2.30	2.22

Source: The District.

Historic Wastewater Service Charge Revenues. The following table shows annual wastewater service charge revenues of the Wastewater System for the five most recent Fiscal Years.

**Marina Coast Water District
Historic Wastewater Service Charge Revenues**

<i>Fiscal Year Ending June 30</i>	<i>Central Marina</i>	<i>Ord Community</i>	<i>Total</i>	<i>% Increase/ Decrease</i>
2010	\$672,648	\$1,488,795	\$2,161,443	9.99%
2009	619,650	1,345,452	1,965,102	4.06
2008	592,180	1,296,253	1,888,433	0.34
2007	606,468	1,275,510	1,881,978	3.87
2006	565,922	1,245,994	1,811,916	9.99

Source: The District'.

Largest Customers. The following table sets forth the ten largest customers of the Wastewater System as of June 30, 2010 as determined by annual payments.

**Marina Coast Water District
Ten Largest Wastewater Customers**

<i>Customer</i>	<i>Area</i>	<i>Annual Payments</i>
Monterey Bay Military Housing	Ord Community	\$476,827
FOAM-RS (CSUMB Housing)	Ord Community	278,203
Sun Bay Apartments	Ord Community	81,242
California State Univ Mtry	Ord Community	79,070
Army Commander/DLIFC	Ord Community	54,562
MPUSD – Seaside High School	Ord Community	26,644
Housing Authority of Mtry	Ord Community	16,505
MPUSD – Roger S. Fitch	Ord Community	16,041
MPUSD – George C. Marshall	Ord Community	12,196
Shelter Outreach Plus	Ord Community	10,954
TOTAL		<u>\$1,052,245</u>

Source: The District.

These ten largest customers accounted for approximately 49% of flow sales from the Wastewater System and approximately 11% of total District Gross Revenues in the Fiscal Year ending June 30, 2010.

Wastewater System Rates and Charges. The District charges different wastewater rates within Central Marina and the Ord Community. All District customers, residential and commercial, are billed a basic charge on a monthly basis. The District also charges its Ord Community customers Capital Surcharge, which may be used to fund the debt service. A summary of the current wastewater charges of the District is shown in the following table.

**Marina Coast Water District
Wastewater Rates – Central Marina
Fiscal Year Ending 2011**

<u>Description</u>		
Flat Rate per EDU	\$8.30	Monthly

**Marina Coast Water District
Wastewater Rates – Ord Community
Fiscal Year Ending 2011**

<u>Description</u>		
Flat Rate per EDU	\$24.36	Monthly
Capital Surcharge per EDU	5.00	Monthly

Source: The District.

The table below sets forth a comparison of the average bi-monthly wastewater billings of the District for a single family residential user to those of similar wastewater service providers as of July 2010.

<u>Community</u>	<u>Monthly Bill</u>
District – Central Marina	\$ 8.30
District – Ord Community	24.36
City of Pacific Grove	22.20
City of Monterey	5.18
City of Seaside	7.97

Source: The District.

Collection Procedures. The District is on a monthly billing cycle for water, wastewater collection and recycled water service. A consolidated bill is sent out every other month to District customers. Payment is due by the 15th day after the billing date and is considered delinquent if not paid by that date. If payment is not received, a delinquency message appears on a reminder bill. All accounts not paid in full within 60 days of the billing date will be discontinued until full payment is made.

Projected Wastewater Connections. The following table shows the increase in the number of wastewater connections to the Wastewater System projected by the District for the current and next four Fiscal Years.

**Marina Coast Water District
Projected Wastewater Connections**

<i>Fiscal Year Ending June 30</i>	<i>Central Marina</i>	<i>Ord Community</i>	<i>Total</i>	<i>% Increase/ Decrease</i>
2015	3,888	4,979	8,867	2.75%
2014	3,888	4,742	8,630	2.69
2013	3,888	4,516	8,404	2.63
2012	3,888	4,301	8,189	2.57
2011	3,888	4,096	7,984	2.50

Source: The District.

Projected Wastewater System Usage. The District currently estimates that Wastewater System usage for the current and next four Fiscal Years will be as follows:

**Marina Coast Water District
Projected Wastewater System Usage
In Daily Average Flow In MGD**

<i>Fiscal Year Ending June 30</i>	<i>Central Marina</i>	<i>Ord Community</i>	<i>Total</i>	<i>% Increase/ Decrease</i>
2015	1.02	1.41	2.43	2.97%
2014	1.02	1.34	2.36	2.61
2013	1.02	1.28	2.30	2.68
2012	1.02	1.22	2.24	2.75
2011	1.02	1.16	2.18	2.83

Source: The District.

Projected Wastewater Service Charge Revenues. The following table projects annual wastewater service charge revenues of the Wastewater System for the current and next four Fiscal Years.

**Marina Coast Water District
Projected Wastewater Service Charge Revenues**

<i>Fiscal Year Ending June 30</i>	<i>Central Marina</i>	<i>Ord Community</i>	<i>Total</i>	<i>% Increase/ Decrease</i>
2015	\$858,488	\$1,900,122	\$2,758,610	5.00%
2014	817,608	1,809,640	2,627,247	5.00
2013	778,674	1,723,466	2,502,140	5.00
2012	741,594	1,641,396	2,382,991	5.00
2011	706,280	1,563,235	2,269,515	5.00

Source: The District.

Historic Operating Results. The following table is a summary of operating results of the Wastewater System for the last five Fiscal Years. These results have been derived from the Financial Statements but exclude certain receipts which are not included as Gross

Revenues under the 2006 Installment Sale Agreement and certain non-cash items and include certain other adjustments. While the following table presents Gross Revenues and Operation and Maintenance Costs of the Central Marina wastewater system and Ord Community wastewater system on a combined basis, the District accounts for Gross Revenues and Operation and Maintenance Costs of the Central Marina wastewater system and the Ord Community wastewater system separately. See the Financial Statements attached hereto as APPENDIX A.

**Marina Coast Water District
Wastewater System
Historic Operating Results
Fiscal Year Ended June 30**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Gross Revenues					
Wastewater Services	\$2,161,433	\$1,965,102	\$1,888,433	\$1,881,978	\$1,811,916
Capacity and Connection Fees	119,707	255,766	28,442	99,116	59,945
Other Services and Fees	65,669	55,403	10,754	19,677	31,753
Interest Earned	<u>194,305</u>	<u>291,761</u>	<u>356,933</u>	<u>499,108</u>	<u>83,217</u>
Total Gross Revenues	2,541,124	2,568,032	2,284,562	2,499,879	1,986,831
Operation and Maintenance Costs					
General and Administrative	414,997	378,843	426,311	347,767	286,466
Operations and Maintenance	505,284	444,999	509,018	458,731	356,204
Engineering	<u>263,739</u>	<u>286,714</u>	<u>428,197</u>	<u>449,024</u>	<u>488,132</u>
Total Operation and Maintenance Costs	1,184,020	1,110,556	1,363,526	1,255,522	1,130,802
Net Revenues	1,357,104	1,457,476	921,036	1,244,357	856,029
Payments for Promissory Note	--	--	--	--	147,800
2006 Installment Payments	<u>710,800</u>	<u>640,800</u>	<u>640,600</u>	<u>443,100</u>	--
Total Debt Service	710,800	640,800	640,600	443,100	147,800
Cash Available for Capital Projects or Other Purposes	\$646,304	\$816,676	\$280,436	\$801,257	\$708,229

Source: The District.

Projected Operating Results and Debt Service Coverage for Senior Debt. The District's estimated projected operating results for the Wastewater System for the Fiscal Years ending June 30, 2011 through June 30, 2015 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The fiscal forecast represents the District's estimate of projected financial results based upon its judgment of the most probable occurrence of certain important future events. Actual operating results achieved during the projection period may vary from those presented in the forecast, and such variations may be material.

**Marina Coast Water District
Wastewater System
Projected Operating Results
Fiscal Year Ended June 30**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Gross Revenues					
Wastewater Services	\$2,758,610	\$2,627,247	\$2,502,140	\$2,382,991	\$2,269,515
Capacity and Connection Fees	268,750	258,000	242,950	232,200	221,450
Other Services and Fees	82,958	79,008	75,246	71,663	68,250
Interest Earned	<u>247,599</u>	<u>235,808</u>	<u>224,579</u>	<u>213,885</u>	<u>203,700</u>
Total Gross Revenues	3,357,917	3,200,063	3,044,915	2,900,739	2,762,915
Operation and Maintenance Costs					
General and Administrative	529,653	504,431	480,411	457,534	435,747
Operations and Maintenance	644,885	614,176	584,929	557,076	530,548
Engineering	<u>336,605</u>	<u>320,576</u>	<u>305,311</u>	<u>290,772</u>	<u>276,926</u>
Total Operation and Maintenance Costs	1,511,143	1,439,184	1,370,651	1,305,382	1,243,221
Net Revenues	1,846,774	1,760,879	1,674,264	1,595,356	1,519,694
2006 Installment Payments	<u>708,536</u>	<u>707,736</u>	<u>706,536</u>	<u>709,599</u>	<u>707,799</u>
Total Debt Service	708,536	707,736	706,536	709,599	707,799
Coverage Ratio for 2006 Installment Payments	2.61x	2.49x	2.37x	2.25x	2.15x
Cash Available for Capital Projects or Other Purposes	\$1,138,238	\$1,053,143	\$967,728	\$885,757	\$811,895

Source: The District.

Future Wastewater System Improvements. The District projects capital improvements to the Wastewater System for existing and future users of approximately \$33,000,000 over the next five years. The District expects that such capital improvements will be funded by facility capacity fees, grants, loans, installment purchase agreements, and Gross Revenues.

The District is in the process of installing a recycled water delivery system. The District projects the capital cost of a recycled water system is approximately \$100,000,000 over the next five years. FORA will participate in the project by contributing approximately \$37,000,000 for use in repaying a portion of the District's debt service on the proposed Regional Urban Water Augmentation Project. The remaining capital improvements will be financed by a combination of installment purchase agreements, grants, loans and Gross Revenues.

FINANCIAL INFORMATION OF THE DISTRICT

Financial Statements

A copy of the most recent audited financial statements of the District prepared by R. J. Ricciardi, Inc, Certified Public Accountants (the "Auditor") are included as APPENDIX A hereto (the "Financial Statements"). The Auditor's letter concludes that the audited financial statements present fairly, in all material respects, the financial position of the business-type activities and each major fund of the District as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the Fiscal Year then ended in conformity with accounting principles generally accepted in the United States of America.

The summary operating results contained under the caption "Historic Operating Results and Debt Service Coverage" are derived from these financial statements (excluding certain

non-cash items and after certain other adjustments) and are qualified in their entirety by reference to such statements, including the notes thereto.

Historic Operating Results

The following table is a summary of operating results of the District, for the last five Fiscal Years. These results have been derived from the Financial Statements but exclude certain receipts which are not included as Revenues under the 2006 Installment Sale Agreement and certain non-cash items and include certain other adjustments.

Marina Coast Water District Historic Operating Results Fiscal Year Ended June 30

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Gross Revenues					
Water Services	\$ 7,501,854	\$ 7,344,555	\$ 6,686,916	\$ 6,707,039	\$ 6,022,326
Wastewater Services	2,161,443	1,965,102	1,888,433	1,881,978	1,811,916
Capacity and Connection Fees	828,777	1,014,536	421,410	486,706	294,755
Other Services and Fees	951,185	2,175,780	575,262	1,737,043	545,532
Interest Earned	663,923	1,155,694	1,417,375	1,882,864	433,146
Total Gross Revenues	<u>12,107,182</u>	<u>13,655,667</u>	<u>10,989,396</u>	<u>12,695,630</u>	<u>9,107,675</u>
Operation and Maintenance Costs					
General and Administrative	2,129,012	2,129,232	2,274,611	1,825,843	1,558,939
Operations and Maintenance	2,709,949	2,216,202	2,158,993	2,272,393	2,088,928
Laboratory	325,299	312,140	295,452	278,641	296,526
Conservation	297,283	264,490	255,024	201,110	183,875
Engineering	908,265	880,679	1,241,891	1,664,899	1,401,603
Total Operation and Maintenance Costs	<u>6,369,808</u>	<u>5,802,743</u>	<u>6,225,971</u>	<u>6,242,886</u>	<u>5,529,871</u>
Net Revenues	5,737,374	7,852,924	4,763,425	6,452,744	3,577,804
Payments for Promissory Note	--	--	--	--	824,054
2006 Installment Payments	<u>2,744,338</u>	<u>2,673,338</u>	<u>2,676,338</u>	<u>1,808,064</u>	--
Total Debt Service	<u>2,744,338</u>	<u>2,673,338</u>	<u>2,676,338</u>	<u>1,808,064</u>	<u>824,054</u>
Cash Available for Capital Projects or Other Purposes	\$ 2,993,036	\$ 5,179,586	\$ 2,087,087	\$ 4,644,140	\$ 2,753,750

Source: The District.

Projected Operating Results and Debt Service Coverage for Senior Debt

The estimated projected operating results for the District for the Fiscal Years ending June 30, 2011 through June 30, 2015, are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The fiscal forecast represents the District's estimate of projected financial results based upon its judgment of the most probable occurrence of certain important future events. Actual operating results achieved during the projection period may vary from those presented in the forecast, and such variations may be material.

**Marina Coast Water District
Projected Operating Results
Fiscal Year Ended June 30**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Gross Revenues					
Water Services	\$ 9,574,478	\$ 9,118,550	\$ 8,684,334	\$ 8,270,794	\$ 7,876,947
Wastewater Services	2,758,610	2,627,247	2,502,140	2,382,991	2,269,515
Capacity and Connection Fees	987,500	948,000	892,700	853,200	813,700
Other Services and Fees	1,212,467	1,154,731	1,099,744	1,047,375	997,500
Interest Earned	847,451	807,096	768,663	732,060	697,200
Total Gross Revenues	<u>15,380,506</u>	<u>14,655,624</u>	<u>13,947,581</u>	<u>13,286,420</u>	<u>12,654,862</u>
Operation and Maintenance Costs					
General and Administrative	2,717,219	2,587,827	2,464,598	2,347,236	2,235,463
Operations and Maintenance	3,458,658	3,293,960	3,137,105	2,987,719	2,845,446
Laboratory	415,173	395,403	376,574	358,642	341,564
Conservation	379,417	361,349	344,142	327,755	312,147
Engineering	<u>1,159,202</u>	<u>1,104,002</u>	<u>1,051,430</u>	<u>1,001,362</u>	<u>953,678</u>
Total Operation and Maintenance Costs	<u>8,129,669</u>	<u>7,742,541</u>	<u>7,373,849</u>	<u>7,022,713</u>	<u>6,688,298</u>
Net Revenues	7,250,838	6,913,083	6,573,732	6,263,707	5,966,564
2006 Installment Payments	<u>2,732,960</u>	<u>2,740,560</u>	<u>2,740,622</u>	<u>2,744,535</u>	<u>2,746,336</u>
Total Debt Service	<u>2,732,960</u>	<u>2,740,560</u>	<u>2,740,622</u>	<u>2,744,535</u>	<u>2,746,336</u>
Coverage Ratio for 2006 Installment Payments	2.65x	2.52x	2.40x	2.28x	2.17x
Cash Available for Capital Projects or Other Purposes	\$ 4,517,878	\$ 4,172,523	\$ 3,833,110	\$ 3,519,172	\$ 3,220,228

Source: The District.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Article XIII B

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

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

Certain expenditures are excluded from the appropriations limit including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness

thereafter approved by the voters and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

The District is of the opinion that charges for Water Service and Wastewater Service do not exceed the costs it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B. The District will covenant in the Installment Sale Agreement that it will prescribe rates and charges sufficient to provide for payment of Installment Payments in each year.

Proposition 218

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

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

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

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

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

similar reasoning, its water, wastewater and recycled water charges not under commercial contracts were not subject to Article XIID. In a decision rendered in February, 2004, the California Supreme Court in *Richmond et al. v. Shasta Community Services District*, 32 Cal. 4th 409 (2004) upheld a Third District Court of Appeal decision that water connection fees were not property-related fees or charges subject to Article XIID while at the same time stating in dicta that fees for ongoing water service through an existing connection were property related fees and charges. On July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal. 4th 205 (2006) and held that fees and charges for ongoing water service through an existing connection were property related fees and charges under Article XIID.

Article XIIC. Article XIIC provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIIC does not define the terms “local tax,” “assessment,” “fee” or “charge,” so it is unclear whether the definitions set forth in Article XIID referred to above are applicable to Article XIIC. Moreover, the provisions of Article XIIC are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. On July 24, 2006, the California Supreme Court held in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal. 4th 205 (2006) that the provisions of Article XIIC included rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations. The District and its general counsel do not believe that Article XIIC grants to the voters within the District the power to repeal or reduce rates and charges in a manner which would be inconsistent with the contractual obligations of the District. However, there can be no assurance of the availability of particular remedies adequate to protect the beneficial owners of the Certificates. Remedies available to beneficial owners of the Certificates in the event of a default by the District are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain.

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

Future Initiatives

Articles XIIB, XIIC and XIID of the California Constitution were adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time other initiatives could be proposed and adopted affecting the District’s revenues or ability to increase revenues.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of the Underwriter and the beneficial owners of the Bonds to provide certain financial information and operating data relating to the District no later than 270 days following the end of each Fiscal Year (the “**Annual Report**”),

commencing with the report for the Fiscal Year ending June 30, 2011, and to provide notices of the occurrence of certain enumerated events. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth below in APPENDIX D - "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934. The District has not failed to comply with the material terms of its existing continuing disclosure agreements.

NO LITIGATION

In connection with issuance of the Bonds, the District will certify that there is no litigation pending or, to the knowledge of representatives of the District, threatened in any way to restrain or enjoin the issuance, execution or delivery of the Bonds, to contest the validity of the Bonds, the Indenture or any proceedings of the District with respect thereto.

Also in connection with issuance of the Bonds, representatives of the District will certify that there are no lawsuits or claims pending against the District that will materially affect the District's finances so as to impair the ability to pay principal of and interest on the Bonds when due.

[Description of pending litigation - Ag Land Trust v. MCLD???

RATINGS

It is anticipated that, on the Closing Date, Standard & Poor's Financial Services LLC, a subsidiary of The McGraw Hill Companies, Inc. ("**S&P**") will assign its municipal bond rating of "___" to the Bonds.

The ratings reflect only the views of S&P, and an explanation of the significance of the rating, and any outlook assigned to or associated with these rating, should be obtained from S&P.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The District has provided certain additional information and materials to S&P (some of which does not appear in this Official Statement).

There is no assurance that the rating will continue for any given period of time or that the rating will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating on the Bonds may have an adverse effect on the market price or marketability of the Bonds.

TAX MATTERS

Federal Tax Law. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and is not taken into account

in determining income and earnings when computing the alternative minimum tax imposed on corporations.

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

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

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

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

Form of Proposed Opinion. The form of the proposed opinion of Bond Counsel is attached as APPENDIX C.

CERTAIN LEGAL MATTERS

The legal opinion of Bond Counsel, approving the validity of the Bonds, in substantially the form attached hereto as APPENDIX C, will be made available to purchasers at the time of original delivery of the Bonds, and a copy thereof will be printed on each Bond.

Certain matters will be passed upon for the Underwriter by Greenberg Traurig, LLP and for the District by Noland Hamerly Etienne & Hoss, a Professional Corporation, General Counsel to the District.

Payment of the fees and expenses of Bond Counsel and counsel to the Underwriter will be contingent upon issuance of the Bonds.

UNDERWRITING

The Bonds are being purchased by Hutchinson, Shockey, Erley & Co. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price equal to \$_____, which equals the par amount of the Bonds (\$_____,000), less an Underwriter's discount of \$_____, plus a net original issue premium of \$_____. The bond purchase agreement between the District and the Underwriter provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said agreement, the approval of certain legal matters by counsel and certain other conditions.

MISCELLANEOUS

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

MARINA COAST WATER DISTRICT

By:
Director of Administrative Services

APPENDIX A

**AUDITED FINANCIAL STATEMENTS OF THE DISTRICT
FOR FISCAL YEAR ENDED JUNE 30, 2010**

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of the provisions of the Indenture not otherwise summarized in the text of this Official Statement. Such summary is not intended to be definitive, and reference is made to the complete Indenture for the actual terms thereof.

Definitions

As used in this Summary, the following terms have the following meanings. In addition, terms defined elsewhere in this Official Statement and not otherwise defined in this Summary have the meanings given them in this Official Statement.

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

- (a) An allowance for Surplus 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 Surplus 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 Surplus 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 5.08(b), was not in effect, in an amount equal to the total amount by which the Surplus 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 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, 2011.

“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 District in which the Office of the Trustee is located, and on which the Federal Reserve Bank system is not closed.

“Closing Date” means the date of delivery of the Bonds to the original purchaser thereof.

“Debt Service” means, with respect to any Fiscal Year, the sum obtained by totaling the following amounts for such Fiscal Year:

- (a) the aggregate amount of principal of and interest on the outstanding Bonds coming due and payable in such Fiscal Year pursuant to the Indenture; and
- (b) the principal of and interest on all outstanding Parity Debt, if any, coming due and payable by their terms in such Fiscal Year.

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

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

“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.

“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; and
- (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 under the Indenture.

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.

"Maximum Annual Debt Service" means, as of the date of any calculation, the maximum amount of Debt Service coming due and payable in the current or any future Fiscal Year on the outstanding Bonds and all outstanding Parity Debt (including any Parity Debt then proposed to be issued).

"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 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.

"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 any of the Net Revenues issued or incurred on a parity with the Bonds under the Indenture.

"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.

"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;
- (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, 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, 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, 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, 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.

“Promissory Note” means the Promissory Note Secured by Deed of Trust dated June 25, 2010, which has been executed and delivered by the District in the aggregate principal amount of \$7,351,786.00, for the purpose of financing the acquisition of land in the District to be used for the public purposes of the District.

“Reserve Requirement” means an amount equal to the maximum amount of principal of and interest on the Bonds coming due and payable in the current or any future Bond Year.

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

“Surplus Revenues” means, for any period, an amount equal to all of the Gross Revenues received during such period minus (a) the amount required to pay all Operation and Maintenance Costs coming payable during such period, (b) the amount required to pay the 2006 Installment Payments coming payable during such period, (c) the amount required to pay debt service coming due during such period on any obligations issued on a parity with the 2006 Installment Payments in accordance with Section 5.7 of the 2006 Installment Sale Agreement, and (d) the amount (if any) which is required during such period to replenish the reserve account established with respect to the 2006 Installment Payments or with respect to any obligations issued on a parity with the 2006 Installment Payments in accordance with Section 5.7 of the 2006 Installment Sale Agreement.

“Tax Code” means the Internal Revenue Code of 1986 as in effect on the Closing Date or 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.

“2006 Installment Payments” means all payments required to be paid by the District on any date under Section 4.5 of the 2006 Installment Sale Agreement, including any amounts

payable upon delinquent installments and including any prepayment thereof under Section 7.2 or 7.3 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.

“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.

Establishment of Funds and Accounts; Flow of Funds

Costs of Issuance Fund. The Trustee will establish the Costs of Issuance Fund under the Indenture, into which a portion of the proceeds of the Bonds will be deposited on the Closing Date. The Trustee will disburse moneys in the Costs of Issuance Fund from time to time to pay costs of issuing the Bonds upon submission of requisitions of the District. On February 1, 2011, the Trustee shall transfer any amounts remaining in the Costs of Issuance Fund to the Bond Fund, and thereupon the Trustee shall close the Costs of Issuance Fund.

Receipt, Deposit and Application of Surplus Revenues. The District has previously established the Enterprise Funds, which it will continue to hold and maintain for the purposes and uses set forth in the Indenture. 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. The District shall apply amounts in the Enterprise Funds as set forth in the 2006 Installment Sale Agreement and in the documents authorizing the issuance of any additional obligations on a parity with the 2006 Installment Payments.

The District shall manage, conserve and apply the amounts on deposit in the Enterprise Funds in such a manner that all deposits required to be made under the 2006 Installment Sale Agreement for payment of the 2006 Installment Payments and other amounts required to be paid thereunder are made at the times and in the amounts so required. Subject to the

foregoing sentence, so long as no event of default has occurred and is continuing under and as defined in the 2006 Installment Sale Agreement, the District shall withdraw amounts on deposit in the Enterprise Funds and apply such amounts at the times and for the purposes, and in the priority, as follows:

- (a) Bond Fund. On or before the 5th Business Day of the month preceding each Interest Payment Date, so long as any Bonds remain outstanding, 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) an amount which, together with other available amounts then on deposit in the Bond Fund, is at least equal to the aggregate amount of Debt Service coming due and payable on the Bonds 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 under the Indenture), and (ii) paying the principal of the Bonds at the maturity 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.

- (b) Reserve Fund. If the amount on deposit in the Reserve Fund at any time falls below the Reserve Requirement, the Trustee shall promptly notify the District of such fact and the District shall promptly withdraw the amount of such insufficiency from available funds in the Enterprise Funds, and transfer such amount to the Trustee for deposit in the Reserve Fund. No deposit need be made in the Reserve Fund so long as the balance therein at least equals the Reserve Requirement. If the amount on deposit in the Reserve Fund exceeds the Reserve Requirement, the Trustee shall transfer such excess amount to the Bond Fund.

If the amounts on deposit in the Bond Fund on any Interest Payment Date are insufficient to pay the principal of and interest on the Bonds then coming due, the Trustee shall (i) immediately notify the District in writing of such fact, and (ii) withdraw the amount of such insufficiency from the Reserve Fund and transfer it to the Bond Fund. On the date on which all Bonds are retired, any moneys then on deposit in the Reserve Fund will be withdrawn by the Trustee and paid to the District.

Rates and Charges

Covenant Regarding Gross Revenues. 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 allocable to the Water Enterprise which are required to be made in such Fiscal Year under the 2006 Installment Sale Agreement and under the

documents authorizing the issuance of any obligations on a parity with the 2006 Installment Payments, including payments required to restore the balance in the reserve fund established with respect to the 2006 Installment Sale Agreement and any such obligations.

- (iii) All payments of principal of and interest on the Bonds coming due and payable in such Fiscal Year, which are allocable to the Water Enterprise.
- (iv) All amounts, if any, required to restore the balance in the Reserve Fund to the full amount of the Reserve Requirement.
- (v) 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 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 allocable to the Wastewater Enterprise which are required to be made in such Fiscal Year under the 2006 Installment Sale Agreement and under the documents authorizing the issuance of any obligations on a parity with the 2006 Installment Payments, including payments required to restore the balance in the reserve fund established with respect to the 2006 Installment Sale Agreement and any such obligations.
- (iii) All payments of principal of and interest on the Bonds coming due and payable in such Fiscal Year, which are allocable to the Wastewater Enterprise.
- (iv) All amounts, if any, required to restore the balance in the Reserve Fund to the full amount of the Reserve Requirement.
- (v) 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 of the Wastewater Enterprise during such Fiscal Year.

Covenant Regarding Net Revenues. In addition, 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 Surplus Revenues of the Water Enterprise which are at least equal to 150% of the amount of Debt Service calculated for such Fiscal Year with respect to the Water Enterprise. 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 sufficient to yield Surplus Revenues of the Wastewater Enterprise which are at least equal to 150% of the amount of Debt Service calculated for such Fiscal Year with respect to the Wastewater Enterprise. In the event that the actual collection of Surplus Revenues based on such rates, fees and charges is insufficient to yield Surplus Revenues which meet the requirements of this covenant, such event shall not

constitute an Event of Default unless it has continued uncured for a period of at least 12 months.

Additional Covenants of the District

In addition to the covenants made by the District under the Indenture which are described elsewhere in this Official Statement, the District makes the following covenants for the benefit of the Bond owners:

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.

Sale or Eminent Domain of Enterprises. 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 the 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 Surplus Revenues to pay the Bonds, or which otherwise would impair the rights of the Bond Owners with respect to the Surplus Revenues. If any substantial part of the Enterprises is sold, the payment therefor shall be applied as set forth in the 2006 Installment Sale Agreement.

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 as set forth in the 2006 Installment Sale Agreement.

Insurance. The District covenants to 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 as set forth in the 2006 Installment Sale Agreement.

The District also covenants to 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 the Indenture 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.

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 owners of not less than 10% of the outstanding Bonds or their representatives authorized in writing.

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.

Refunding of Promissory Note. The District covenants to cause the proceeds of the Bonds to be applied to the prepayment and discharge of the Promissory Note on the Closing Date. The District covenants that all of its obligations under the Promissory Note will be discharged in full on the Closing Date.

Compliance With Parity Debt Documents. The District will observe and perform all of the covenants, agreements and conditions on its part required to be observed and performed 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 Parity Debt Documents.

Tax Covenants. The District will not take, nor permit nor suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of any of the Bonds which would cause any of the Bonds to be “arbitrage bonds” or “private activity bonds” within the meaning of the Tax Code. The District agrees to comply with all provisions of the Tax Code relating to the rebate to the United States of America of excess investment earnings derived from the Bond proceeds.

Amendment of Indenture

The Indenture may be modified or amended at any time by a supplemental indenture with the written consents of the owners of a majority in aggregate principal amount of the Bonds then outstanding. No such modification or amendment may (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the District to pay the principal, interest or redemption premiums (if any) at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the owner of such Bond, (b) permit the creation by the District of any mortgage, pledge or lien upon the Revenues superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as expressly permitted by the Indenture), or reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

The Indenture may also be modified or amended at any time by a supplemental indenture, without the consent of any Bond owners, to the extent permitted by law, but only for any one or more of the following purposes:

- (a) to add to the covenants and agreements of the District contained in the Indenture, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power therein reserved to or conferred upon the District; or
- (b) to cure any ambiguity, or to cure, correct, supplement any defective provision contained in the 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 of the Bonds, in the opinion of nationally-recognized bond counsel; or

- (c) to provide for the issuance of any Parity Debt, 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 to such Parity Debt and any other provisions relating solely to such Parity Debt; or
- (d) to amend any provision of the Indenture to assure the exclusion from gross income of interest on the Bonds for federal income tax purposes under the Tax Code.

Events of Default and Remedies

Events of Default. Each of the following events constitutes an Event of Default under the Indenture:

- (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 the Indenture or in the Bonds, if such failure has continued for a period of 60 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 60-day period, such failure shall not constitute an Event of Default if the District institutes corrective action within such 60-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 the 2006 Installment Sale Agreement.
- (f) The occurrence and continuation of an event of default under and as defined in any Parity Debt Documents.

Remedies. 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 the Indenture or in the Bonds to the contrary notwithstanding, and (b) 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 the Indenture.

Notice to Bond Owners. 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 must 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 in the Indenture for notices of redemption of the Bonds, which must include the statement that interest on the Bonds will 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).

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 the Indenture will 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 the 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 if such moneys are 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.

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 under the Indenture, whether upon its own discretion, with the consent or upon 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 opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Limitation on Bond 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 the Indenture, unless:

- (a) said Bond 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 granted to it under the Indenture 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.

Defeasance of Bonds

The District has the right to pay and discharge 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 the 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 the 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;

Upon such action, and notwithstanding that any such Bonds have not been surrendered for payment, the pledge of the Net Revenues and other funds provided for in the Indenture and all other obligations of the Trustee and the District under the Indenture with respect to such Bonds will cease and terminate.

APPENDIX C

FORM OF BOND COUNSEL OPINION

[LETTERHEAD OF JONES HALL]

[Closing Date]

Board of Directors
Marina Coast Water District
11 Reservation Road
Marina, California 93933

OPINION: \$_____ * Marina Coast Water District
2010 Subordinate Enterprise Revenue Refunding Bonds

Members of the Board of Directors:

We have acted as bond counsel in connection with the issuance by Marina Coast Water District (the "District") of \$_____ * aggregate principal amount of bonds of the District designated the "Marina Coast Water District 2010 Subordinate Enterprise Revenue Refunding Bonds" (the "Bonds"), issued under the provisions of 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 (the "Refunding Bond Law"), and under an Indenture of Trust dated as of December 1, 2010 (the "Indenture"), between the District and Union Bank, N.A., as trustee, and a resolution of the Board of Directors of the District adopted on November 29, 2010. We have examined the Refunding Bond Law, an executed copy of the Indenture and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the District contained in the Indenture and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based upon our examination we are of the opinion, under existing law, that:

1. The District is a county water district duly organized and existing under the laws of the State of California, with power to enter into the Indenture, to perform the agreements on its part contained therein and to issue the Bonds.

* Subject to change.

2. The Bonds have been duly authorized, executed and delivered by the District and are legal, valid and binding obligations of the District, payable solely from the sources provided therefor in the Indenture.

3. The Indenture has been duly approved by the District and constitutes a legal, valid and binding obligation of the District enforceable against the District in accordance with its terms.

4. The Indenture establishes a valid lien on and pledge of the Net Revenues of the Water System (as such terms are defined in the Indenture) for the security of the Bonds and any obligations issued on a parity therewith.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The Bonds are "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986 (the "Tax Code") and, in the case of certain financial institutions (within the meaning of Section 265(b)(5) of the Tax Code), a deduction is allowed for 80% of that portion of such financial institutions' interest expense allocable to interest payable with respect to the Bonds. The opinions set forth in this paragraph are subject to the condition that the District comply with all requirements of the Tax Code that must be satisfied subsequent to the delivery of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of delivery of the Bonds, or may cause the Bonds not to be "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Tax Code. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

A Professional Law Corporation

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by Marina Coast Water District (the “District”) in connection with the issuance of the \$_____,000 aggregate principal amount of Marina Coast Water District 2010 Subordinate Enterprise Revenue Refunding Bonds (the “Bonds”). The Bonds are being issued under an Indenture of Trust dated as of December 1, 2010 (the “Indenture”) between the District and Union Bank, N.A., as trustee (the “Trustee”). The District covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth hereinabove and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms have the following meanings:

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

“*Annual Report Date*” means the date that is 270 days after the end of the District’s fiscal year (currently February 1 based on the District’s fiscal year end of June 30).

“*Dissemination Agent*” means a Dissemination Agent designated in writing by the District and which has filed with the District and the Trustee a written acceptance of such designation.

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

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the District in connection with the issuance of the Bonds.

“*Participating Underwriter*” means the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

* Subject to change.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing February 1, 2011, with the report for the 2009-10 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate, with a copy to the Trustee and the Participating Underwriter. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder. The Dissemination Agent and the Trustee may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(b) If the District does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the District shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as the Exhibit hereto, with a copy to the Trustee and the Participating Underwriter.

(c) With respect to each Annual Report, the Dissemination Agent shall:

- (i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and
- (ii) if the Dissemination Agent is other than the District, file a report with the District, with a copy to the Trustee and the Participating Underwriter, certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

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

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

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the District for the preceding fiscal year, substantially similar to that provided in the Official Statement as follows:

- (i) Principal amount of Bonds outstanding.
- (ii) An update of the information in the following tables under caption entitled "THE DISTRICT AND THE ENTERPRISES - Water System of the District" in the Official Statement:
 - (A) "Marina Coast Water District Historic Water Connections" on page __ of the Official Statement.
 - (B) "Marina Coast Water District Historic Water Deliveries In Acre Feet Per Year" on page __ of the Official Statement.
 - (C) "Marina Coast Water District Historic Water Sales Revenues" on page __ of the Official Statement.
- (iii) An update of the information in the following tables under the caption entitled "THE DISTRICT AND THE ENTERPRISES - Wastewater System of the District" in the Official Statement:
 - (A) "Marina Coast Water District Historic Wastewater Connections" on page __ of the Official Statement.
 - (B) "Marina Coast Water District Historic Wastewater System Usage" on page __ of the Official Statement.
 - (C) "Marina Coast Water District Historic Wastewater Service Charge Revenues" on page __ of the Official Statement.
- (iv) A table showing Net Revenues of the District for the last fiscal year presented in a similar format as the table entitled "FINANCIAL INFORMATION OF THE DISTRICT - Historic Operating Results" on page __ of the Official Statement.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the District shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

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

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults, if material.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other notices or determinations, in each case, with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds,
- (vii) Modifications to rights of security holders, if material.
- (viii) Contingent or unscheduled bond calls, if material, or tender offers.
- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the securities, if material.
- (xi) Rating changes.
- (xii) Bankruptcy, insolvency, receivership or similar events of the District, being if any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under State or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.
- (xiii) The consummation of a merger, consolidation or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(b) Whether events subject to the standard “material” would be material shall be determined under applicable federal securities laws.

(c) The District shall, or shall cause the Dissemination Agent (if not the District) to, promptly file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, with a copy to the Trustee and the Participating Underwriter. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

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

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

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty days written notice to the District and the Trustee.

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

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

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

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

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

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

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

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

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

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. Article VI of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Trust Agreement. The Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Notices. Any notice or communications to be given under this Disclosure Certificate may be given as follows:

To the Issuer:

Marina Coast Water District
11 Reservation Road
Marina, California, 95933
Attention: General Manager

To the Participating Underwriter: Hutchinson, Shockey, Erley & Co.
1702 East Highland Avenue, Suite 301
Phoenix, Arizona 85016
Attention: Brian J. O'Connor

To the Trustee: Union Bank, N.A.
350 California St., 11th Floor
San Francisco, California 94104
Attention: Corporate Trust Department

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: [Closing Date]

MARINA COAST WATER DISTRICT

By.....

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

Name of Obligated Party: Marina Coast Water District
Name of Bond Issue: Marina Coast Water District 2010 Subordinate Enterprise Revenue Refunding Bonds
Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated [Closing Date]. The District anticipates that the Annual Report will be filed by

Dated:.....

DISSEMINATION AGENT:

By:.....
Its:.....

cc: Trustee and Participating Underwriter

APPENDIX E

BOOK ENTRY ONLY SYSTEM

The following description of DTC, the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

*Neither the issuer of the Bonds (the “**Issuer**”) nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the “**Agent**”) take any responsibility for the information contained in this Appendix.*

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. DTC will act as securities depository for the securities (the “**Securities**”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“**Direct Participants**”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations.

DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“**DTCC**”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. *The information contained on this Internet site is not incorporated herein by reference.*

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

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

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.