



**NOTICE AND CALL OF SPECIAL MEETING
OF THE BOARD OF DIRECTORS
MOULTON NIGUEL WATER DISTRICT
27500 La Paz Road, Laguna Niguel
May 1, 2015
10:00 AM
Approximate Meeting Time: 2 Hours**

**THIS BOARD MEETING WILL INCLUDE TELECONFERENCING
AT THE FOLLOWING LOCATION:
174 AQUILES SERDAN #505 EMILIANO ZAPATA, MEXICO**

NOTICE IS HEREBY GIVEN that a Special Meeting of the Board of Directors' of the Moulton Niguel Water District ("MNWD") has been called by the Chairman of the Board of Directors' to be held on May 1, 2015, at 10:00 AM, at MNWD's Administrative Offices located at the address above. The following business will be transacted and is the Agenda for this Special Meeting:

AGENDA

1. CALL MEETING TO ORDER

2. PUBLIC COMMENTS

Persons wishing to address the Board of Directors on any item listed on the Agenda should submit a "Request To Be Heard" form to the Recording Secretary before the Presiding Officer announces that agenda item. Your name will be called to speak at that time. (As required by law, public comments during a Special Meeting may address only specific items listed on the agenda, no other matters.)

DISCUSSION / ACTION ITEMS

3. 2003 CERTIFICATES OF PARTICIPATION REFUNDING

It is recommended that the Board of Directors approve the resolution entitled, "Authorizing the Issuance and Sale of Water Revenue Refunding Bonds and Approving Related Agreements and Actions".

4. CALPERS EMPLOYER PAID MEMBER CONTRIBUTIONS (RESOLUTION NO.15-___)

It is recommended that the Board of Directors approve the resolution entitled, "Employer Paid Member Contributions Under the California Public Employees' Retirement System (CALPERS)".

5. WATER SHORTAGE CONTINGENCY PLAN IMPLEMENTATION (RESOLUTION NO.15-)

It is recommended that the Board of Directors approve the resolution entitled, "Declaring Water Shortage Stages 1 and 2".

ADJOURNMENT

The Board of Directors' Meeting Room is wheelchair accessible. If you require any special disability related accommodations (i.e., access to an amplified sound system, etc.), please contact the Moulton Niguel Water District Secretary's office at (949) 831-2500 at least forty-eight (48) hours prior to the scheduled meeting. This agenda can be obtained in alternate format upon written request to the Moulton Niguel Water District Secretary at least forty-eight (48) hours prior to the scheduled meeting.

Agenda exhibits and other writings that are disclosable public records distributed to all, or a majority of, the members of the Moulton Niguel Water District Board of Directors in connection with a matter subject to discussion or consideration at an open meeting of the Board of Directors are available for public inspection at the District Office, 27500 La Paz Road, Laguna Niguel, CA ("District Office"). If such writings are distributed to members of the Board less than twenty-four (24) hours prior to the meeting, they will be available in the reception area of the District Office at the same time as they are distributed except that, if such writings are distributed immediately prior to, or during the meeting, they will be available in the Board meeting room and on the District website at www.mnwd.com.

The foregoing Notice was personally delivered, faxed, mailed or e-mailed to each member of the MNWD Board of Directors at least twenty-four (24) hours prior to the scheduled time of the Special Meeting so noticed above; and posted twenty-four (24) hours prior to the time of the Special Meeting at the usual agenda posting location of MNWD (bulletin board outside main office entrance).



Moulton Niguel Water District

STAFF REPORT

TO: Board of Directors **MEETING DATE: May 1, 2015**

FROM: Ruth Zintzun, Finance Manager

SUBJECT: 2003 Certificates of Participation Refunding

DIVISION: District-Wide

SUMMARY:

Issue: Refunding the District's 2003 Certificates of Participation is expected to reduce the District's remaining interest payments, associated with the obligation.

Recommendation: It is recommended that the Board of Directors approve the resolution entitled, "Authorizing the Issuance and Sale of Water Revenue Refunding Bonds and Approving Related Agreements and Actions".

Fiscal Impact: Annual debt service savings of approximately \$350,000, beginning in 2018, with total estimated net present value savings (net of cost of issuance) of approximately \$1.3 million or 8.7%, depending upon interest rates at the time of issuance.

BACKGROUND:

The District continually looks for methods to reduce costs, including reducing debt service. In 2003, the Moulton Niguel Water District (District) issued \$25,145,000 in Certificates of Participation (COPs) to refund a portion of the District's outstanding 1993 COPs. There is currently \$14,520,000 left outstanding on the 2003 COPs, which are eligible for tax-exempt refunding. The finance team recently identified potential savings if the District were to refund the 2003 COPs. The savings are driven by both low interest rates, the interest rate on the existing debt, and the age of the bonds.

The outstanding 2003 COPs have a final maturity in 2023 with annual debt service payments of approximately \$2,850,000 beginning in 2018. The proposed refunding, based on current market conditions, would have the same final maturity, but with annual debt service payments of approximately \$2,500,000, an annual savings of \$350,000. The current net present values savings (after all costs of issuance) for the refunding would be approximately \$1,300,000 or 8.7%.

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2003 Certificates of Participation Refunding

May 1, 2015

Page 2 of 2

DISCUSSION:

In March and April 2015, the Board was presented with information regarding the potential refunding of the 2003 COPs. At that time, the Board directed the finance team to continue to pursue the refunding opportunity and expedite the process.

Staff recommends that the Board authorize the issuance and sale of the refunding bonds and all associated legal documents, provided the sale of the bonds will produce a net present value savings of at least 5% of the outstanding debt on the bonds, or \$726,000. If the savings level equals or exceeds 5%, the General Manager would be authorized to complete the sale and finalize the financing documents. All costs incurred to refund the Bonds would only apply if there is a sale and would be paid from bond proceeds.

Below is the expected timeline for the refunding;

	Date	Action
	Friday, May 1, 2015	Board approval of refunding
Week of	Monday, May 18, 2015	Bond sale
Week of	Monday, June 8, 2015	Bond closing

Attachments:

1. Resolution entitled, "Authorizing the Issuance and Sale of Water Revenue Refunding Bonds and Approving Related Agreements and Actions"
2. Preliminary Official Statement
3. Indenture of Trust
4. Escrow Deposit and Trust Agreement
5. Official Notice of Sale

RESOLUTION NO. 15-_____

**RESOLUTION OF THE BOARD OF DIRECTORS OF
MOULTON NIGUEL WATER DISTRICT
AUTHORIZING THE ISSUANCE AND SALE OF WATER REVENUE
REFUNDING BONDS AND APPROVING RELATED AGREEMENTS
AND ACTIONS**

WHEREAS, the Moulton Niguel Water District (the "District") previously entered into an Installment Sale Agreement dated as of August 1, 2003 (the "2003 Agreement") with the Moulton Niguel Water District Public Facilities Corporation (the "Corporation") in connection with the execution and delivery of \$25,145,000 aggregate principal amount of the 2003 Refunding Certificates of Participation (the "2003 Certificates"); and

WHEREAS, the proceeds of the 2003 Certificates were used to refinance the acquisition of certain water, recycled water and sewer facilities improvements by refinancing a portion of the District's obligations under an Installment Sale Agreement, dated as of November 1, 1993, and causing a prepayment on a current basis of the Moulton Niguel Water District 1993 Certificates of Participation (the "1993 Certificates"); and

WHEREAS, certain payments (the "2003 Installment Payments") made by the District to the Corporation under the 2003 Agreement were assigned to U.S. Bank National Association, as trustee (the "2003 Trustee") for the 2003 Certificates, for the purpose of paying the principal and interest with respect to the 2003 Certificates; and

WHEREAS, in order to realize debt service savings, the District now desires to prepay the 2003 Installment Payments, thereby causing the redemption of the 2003 Certificates, and is entitled to do so under the provisions of Section 6.01(a) of the 2003 Agreement and Section 401 of the Trust Indenture, dated as of August 1, 2003, relating to the 2003 Certificates (the "2003 Trust Indenture") among the 2003 Trustee, the Corporation and the District; and

WHEREAS, to that end, the District proposes to issue its Moulton Niguel Water District 2015 Revenue Refunding Bonds (the "Bonds") under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code (the "Bond Law"), and the Bonds will be secured by a pledge of, first, the Tax Revenues, and, second, the Net Revenues (as those terms are defined in the Indenture of Trust described below); and

WHEREAS, the pledge of Tax Revenues and Net Revenues to the Bonds shall be on a parity basis with the District's pledge of Tax Revenues and Net Revenues as security for:

- (i) the District's obligation to make certain installment payments (the "2009 Installment Payments") under an Installment Sale Agreement, dated as of December 1, 2009 (the "2009 Agreement"), by and between the District and the Corporation relating to the \$60,000,000 2009 Certificates of Participation

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(Federally Taxable - Build America Bonds - Direct Payment) (the "2009 Certificates");

(ii) the District's obligation to make certain installment payments (the "2010 Installment Payments") under an Installment Sale Agreement, dated as of November 1, 2010 (the "2010 Agreement"), by and between the District and the Corporation relating to the \$8,965,000 2010 Certificates of Participation (1993 Refunding) (the "2010 Certificates"); and

(iii) the District's obligation to make certain installment payments under California Infrastructure and Economic Development Bank (CIEDB) Enterprise Fund Installment Sale Agreements 01-020 and 01-026 (the "CIEDB Agreements"); and

WHEREAS, the pledge of Tax Revenues and Net Revenues to the Bonds shall be on a parity basis with the District's pledge of Tax Revenues and certain Net Revenues as security for the following obligations: (i) State Revolving Fund Loans designated "Phase III Recycled Water SRF Loan Nos. C-06-4150-110 and C-06-4150-130" and "Phase IV Recycled Water SRF Loan No. C-06-4150-120" ("SRF Loans"), (ii) State of California Department of Water Resources Water Conservation Loan Program Contract E62040 (the "DWR Loan"); and

WHEREAS, the Board of Directors of the District has duly considered such transactions and wishes at this time to approve said transactions as being in the public interests of the District;

NOW, THEREFORE, the Board of Directors of the Moulton Niguel Water District does hereby **RESOLVE, DETERMINE AND ORDER** as follows:

Section 1. Issuance of Refunding Bonds; Approval of Indenture. The Board of Directors hereby authorizes the issuance of the Refunding Bonds under the Bond Law, in the principal amount of not to exceed \$15,000,000, for the purpose of providing funds to refinance the 2003 Installment Payments and thereby provide funds to refund the outstanding 2003 Certificates.

The Refunding Bonds shall be issued under an Indenture of Trust (the "Indenture of Trust") between the District and U.S. Bank National Association as trustee, which is hereby approved in substantially the form on file with the Board Secretary together with any changes therein or additions thereto deemed advisable by the General Manager or the Assistant General Manager (each, an "Authorized Officer"), and the execution thereof by an Authorized Officer shall be conclusive evidence of the approval of such changes and additions. The Board of Directors hereby authorizes and directs an Authorized Officer to execute, and the Board Secretary to attest, said form of the Indenture of Trust for and in the name of the District. The Board of Directors hereby authorizes the delivery and performance of the Indenture of Trust.

Section 2. Refinancing of 2003 Installment Payments. The Board of Directors hereby authorizes and approves the refinancing of the 2003 Installment Payments from the proceeds of the Refunding Bonds. Such refinancing shall be accomplished under the Escrow Deposit and Trust Indenture between the District and the 2003 Trustee, in substantially the form on file with the Board Secretary together with any changes therein

or additions thereto deemed advisable by an Authorized Officer, and the execution thereof by an Authorized Officer shall be conclusive evidence of the approval of such changes and additions. The Board of Directors hereby authorizes and directs an Authorized Officer to execute the final form of the Escrow Deposit and Trust Indenture for and in the name of the District. The Board of Directors hereby authorizes the delivery and performance of the Escrow Deposit and Trust Indenture.

Section 3. Sale of Refunding Bonds. The Official Notice of Sale, in the form presented to the Board of Directors, is hereby approved. The Authorized Officers are hereby authorized and directed to distribute the Notice of Sale, with such changes, insertions and omissions as may be approved by the Authorized Officers, to potential bidders for the Refunding Bonds, and to sell the Refunding Bonds by competitive sale in accordance with the terms thereof. Notwithstanding the foregoing, the best conforming bid for the Refunding Bonds will not be accepted if it results in net present value savings below 5% of the principal amount of the refunded 2003 Certificates. The Authorized Officers are hereby authorized and directed to publish a notice of intention to sell the Refunding Bonds as required by the California Government Code.

Section 4. Official Statement. The Board of Directors hereby approves the Preliminary Official Statement describing the Refunding Bonds in the form on file with the Board Secretary, and authorizes an Authorized Officer to approve revisions to said Preliminary Official Statement. An Authorized Officer shall execute a certificate deeming the Preliminary Official Statement, as so revised, to be nearly final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934. Distribution of the Preliminary Official Statement to prospective purchasers of the Refunding Bonds is hereby approved. An Authorized Officer is hereby authorized and directed to approve any changes in or additions to a final form of said Official Statement, and the execution thereof by an Authorized Officer shall be conclusive evidence of approval of any such changes and additions. The Board of Directors hereby authorizes the distribution of the final Official Statement by the winning bidder for the Bonds. The final Official Statement shall be executed in the name and on behalf of the District by an Authorized Officer.

Section 5. Engagement of Professional Services. In connection with the issuance and sale of the Refunding Bonds, the Board of Directors hereby authorizes the engagement of the services of the firm of Jones Hall, A Professional Law Corporation, to act as bond counsel and disclosure counsel to the District. An Authorized Officer is hereby authorized and directed to execute an agreement with such firm, in the form on file with the Board Secretary.

Section 6. Official Actions. The President, the General Manager, the Assistant General Manager, the Board Secretary and any and all other officers of the District are hereby authorized and directed, for and in the name and on behalf of the District, to do any and all things and take any and all actions, including execution and delivery of any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the transactions described herein, including but not limited to a continuing disclosure certificate. Whenever in this Resolution any officer of the District is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf if such officer is absent or unavailable.

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Section 7. Effective Date. This Resolution shall take effect from and after the date of its passage and adoption.

APPROVED, ADOPTED, and SIGNED this 1st day of May, 2015.

MOULTON NIGUEL WATER DISTRICT

President
MOULTON NIGUEL WATER DISTRICT
and Board of Directors thereof

Secretary
MOULTON NIGUEL WATER DISTRICT
and Board of Directors thereof

NEW ISSUE

RATINGS:
S&P Rating: “___”
Fitch Rating: “___”

FULL BOOK ENTRY

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, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "CONCLUDING INFORMATION — Tax Matters."

\$ _____*
**MOULTON NIGUEL WATER DISTRICT
2015 REVENUE REFUNDING BONDS**

Dated: Date of Delivery

Due: September 1, as shown below

The captioned bonds (the “Bonds”) are being issued by the Moulton Niguel Water District (the “District”) under an Indenture of Trust dated as of June 1, 2015 (the “Indenture”) between the District and U.S. Bank National Association, Los Angeles, California, as trustee (the “Trustee”). Proceeds of the Bonds will be used to (i) refinance an existing installment payment obligation of the District, (ii) fund a debt service reserve fund for the Bonds and (iii) pay the costs of issuing the Bonds. See “FINANCING PLAN.”

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 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 is payable on March 1 and September 1 of each year, commencing September 1, 2015, 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 are not subject to optional redemption prior to maturity. See “THE BONDS – No Optional Redemption.”

*The Bonds are special obligations of the District and are payable exclusively from Tax Revenues and Net Revenues (each as defined in this Official Statement) of the District and from amounts on deposit in certain funds and accounts established under the Indenture. **The provisions of the Indenture relating to the pledge of Tax Revenues and Net Revenues is subject to automatic amendment as described in “SECURITY FOR THE BONDS – Automatic Amendments.”** The District previously incurred a number of obligations that are outstanding and that are payable on a parity basis with the Bonds. In addition, under the Indenture, the District may incur additional debt secured by Tax Revenues and Net 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 Obligations.”*

THE PRINCIPAL OF AND INTEREST ON THE BONDS ARE PAYABLE SOLELY FROM TAX REVENUES AND NET REVENUES PLEDGED BY THE DISTRICT AND AMOUNTS IN CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE.

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 will be sold pursuant to a competitive bidding process to be held on May 20, 2015 pursuant to the terms of an Official Notice of Sale. The Bonds are offered when, as and if issued, and accepted by the Purchaser, subject to approval as to legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, and subject to certain other conditions. Jones Hall is also acting as Disclosure Counsel to the District. It is anticipated that the Bonds will be available for delivery in book-entry form on or about June 10, 2015.

Dated: May __, 2015

* Preliminary; subject to change.

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MATURITY SCHEDULE

Base CUSIP†: _____

<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP† Number</u>
2015					
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

† Copyright 2015, 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 Purchaser 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 Purchaser has provided the following sentence for inclusion in this Official Statement: The Purchaser 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 Purchaser does not guarantee the accuracy or completeness of such information.

Document References and Summaries. All references to and summaries of the Indenture 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 and Section 3(a)(12) of the Securities Exchange Act of 1934.

Stabilization of Prices. In connection with this offering, the Purchaser may over allot 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 Purchaser 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 Purchaser.

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.

MOULTON NIGUEL WATER DISTRICT

Board of Directors

Donald Froelich, *President*
Brian S. Probolsky, *Vice-President*
Scott F. Colton, *Vice-President*
Duane D. Cave, *Director*
Richard S. Fiore, *Director*
Gary R. Kurtz, *Director*
Lawrence R. Lizotte, *Director*

District Staff

Joone Lopez, *General Manager*
Matt Collings, *Assistant General Manager*
Ruth Zintzun, *Finance Manager*

District Counsel

Bowie, Arneson, Wiles & Giannone
Newport Beach, California

Bond Counsel and Disclosure Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Financial Advisor

Public Financial Management, Inc.
Los Angeles, California

Trustee

U.S. Bank National Association
Los Angeles, California

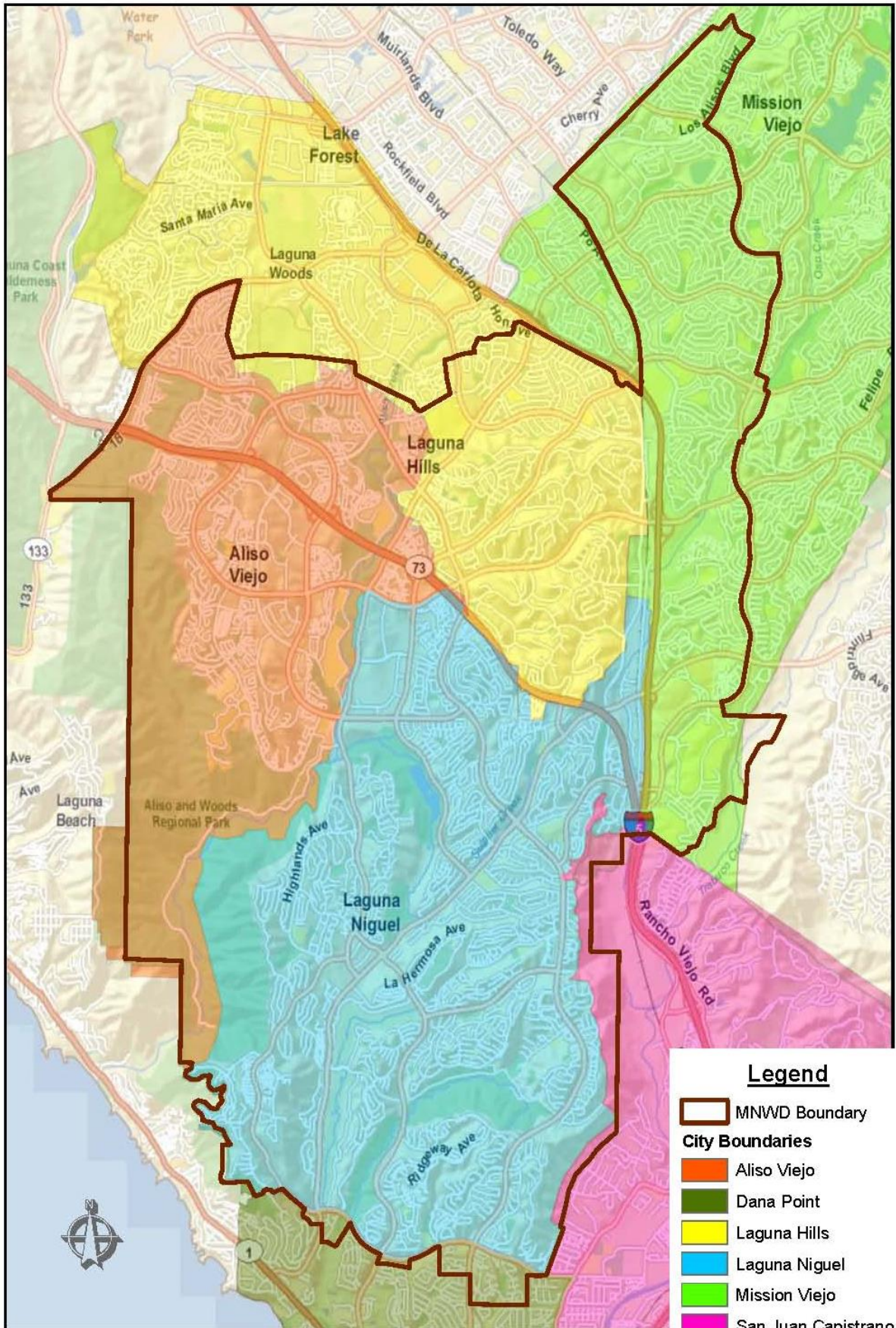
Verification Agent

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OFFICIAL STATEMENT

\$ _____ *

**MOULTON NIGUEL WATER DISTRICT
2015 Revenue Refunding Bonds**

INTRODUCTION

*This Official Statement, including the cover page and appendices, is provided to furnish information in connection with the sale by the Moulton Niguel Water District of its 2015 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.”*

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, commencing with Section 53570 of said Code (the “**Bond Law**”) and an Indenture of Trust (the “**Indenture**”) dated as of June 1, 2015, between the District and U.S. Bank National Association, Los Angeles, California, as trustee (the “**Trustee**”).

Use of Proceeds. The proceeds of the Bonds will be used to (i) refinance the District’s outstanding installment payment obligations (the “**2003 Installment Payments**”) under an Installment Sale Agreement, dated as of August 1, 2003 (the “**2003 Installment Sale Agreement**”), which are the source of repayment for the District’s outstanding 2003 Certificates of Participation (the “**2003 Certificates**”); (ii) fund a debt service reserve fund for the Bonds; and (iii) pay the costs of issuing the Bonds. See “FINANCING PLAN.”

Security for the Bonds. The Bonds will be payable from and secured by Tax Revenues and Net Revenues (each as defined in this Official Statement) of the District. See “SECURITY FOR THE BONDS.”

Rate Covenant. In the Indenture, the District covenants, to the maximum extent permitted by law, to fix, to prescribe and collect certain rates and charges related to the District’s water, recycled water and sewer systems (the “**Systems**”) in order to ensure the availability of Net Revenues to pay the debt service on the Bonds and any Parity Obligations (as defined below). See “SECURITY FOR THE BONDS - Rate Covenant.”

* Preliminary; subject to change.

Prior Parity Obligations. The District's pledge of Tax Revenues and Net Revenues to the payments of debt service on the Bonds is on a parity with the District's pledge of Tax Revenues and Net Revenues to the following outstanding obligations (the "**Prior Parity Obligations**"):

- (i) 2010 Installment Payments. The District's installment payment obligations (the "**2010 Installment Payments**") under an Installment Sale Agreement, dated as of November 1, 2010 (the "**2010 Installment Sale Agreement**"). The 2010 Installment Payments are the source of repayment for the District's 2010 Certificates of Participation (1993 Refunding) (the "**2010 Certificates**"). As of March 31, 2015, the outstanding principal amount of the 2010 Certificates was \$5,560,000. The 2010 Certificates were executed and delivered pursuant to a Trust Indenture dated as of November 1, 2010 (the "2010 Trust Indenture").
- (ii) 2009 Installment Payments. The District's installment payment obligations (the "**2009 Installment Payments**") under an Installment Sale Agreement, dated as of December 1, 2009 (the "**2009 Installment Sale Agreement**"). The 2009 Installment Payments are the source of repayment for the District's outstanding 2009 Certificates of Participation (Federally Taxable – Build America Bonds – Direct Payment) (the "**2009 Certificates**"), which are currently outstanding in the principal amount of \$60,000,000. The 2009 Certificates were executed and delivered pursuant to a Trust Indenture, dated as of December 1, 2009 (the "**2009 Trust Indenture**").
- (iii) CIEDB Agreements. The District has entered into California Infrastructure Development Bank (CIEDB) Enterprise Fund Installment Sale Agreements 01-020 and 02-026 (the "**CIEDB Agreements**") with the California Infrastructure and Economic Development Bank. As of March 31, 2015, the outstanding principal amount of the CIEDB Agreements was \$1,120,883.

See "SECURITY FOR THE BONDS – Prior Parity Obligations; Limitations on Additional Obligations and Superior Obligations" and "FINANCING PLAN – Debt Service Schedule" for information related to the Prior Parity Obligations.

Prior Governmental Loans. The District has previously incurred the following governmental loan obligations (the "**Prior Governmental Loans**") that are secured by a pledge of the Tax Revenues and a portion of the District's Net Revenues (collectively, the "**Governmental Loans Pledged Revenues**") on a parity with the Prior Parity Obligations and the Bonds:

- (i) SRF Loans. The District has entered into the following loan contracts (the "**SRF Loans**") with the State Water Resources Control Board: "Phase III Recycled Water SRF Loan Nos. C-06-4150-110 and C-06-4150-130" and "Phase IV Recycled Water SRF Loan No. C-06-4150-120." As of March 31, 2015, the outstanding principal amount of the SRF Loans was \$11,429,758.
- (ii) DWR Loan. The District has entered into State of California Department of Water Resources Water Conservation Loan Program Contract E62040 (the "**DWR Loan**"). As of March 31, 2015, the outstanding principal amount of the DWR Loan was \$302,182. The DWR Loan will be paid off as of October 1, 2015.

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See “SECURITY FOR THE BONDS - Prior Governmental Loans; Limitations on Additional Governmental Loans” and “FINANCING PLAN – Debt Service Schedule” for information related to the Prior Governmental Loans.

Additional Parity Obligations. The Indenture provides that the District may incur additional obligations, referred to as “**Additional Obligations**,” secured by a pledge of Tax Revenues and Net Revenues on a parity basis with the Prior Parity Obligations and the Bonds only upon the satisfaction of certain conditions. See “SECURITY FOR THE BONDS - Prior Parity Obligations; Limitations on Additional Obligations and Superior Obligations.”

Additional Governmental Loans. The Indenture provides that the District may incur additional obligations, referred to as “**Additional Governmental Loans**,” secured by a pledge of Governmental Loans Pledged Revenues on a parity basis with the Prior Governmental Loans, the Prior Parity Obligations and the Bonds only upon the satisfaction of certain conditions. See “SECURITY FOR THE BONDS - Prior Governmental Loans; Limitations on Additional Government Loans.”

Limited Obligation THE DISTRICT’S OBLIGATION TO MAKE DEBT SERVICE PAYMENTS ON THE BONDS IS A SPECIAL OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM TAX REVENUES, NET REVENUES AND OTHER FUNDS PROVIDED THEREFORE IN THE INDENTURE. ALTHOUGH THE DISTRICT HAS PLEDGED TAX REVENUES, THE DISTRICT HAS NOT AGREED TO LEVY AND DOES NOT LEVY ANY FORM OF TAXATION TO PAY DEBT SERVICE ON THE BONDS.

Risk Factors. The purchase of the Bonds involves certain risks. For a description of some of these risks, see “RISK FACTORS.”

The District. The District is located in southern Orange County, California. The District’s service area encompasses approximately 36.5 square miles and includes the Cities of Aliso Viejo, Laguna Niguel, Laguna Hills, Mission Viejo and Dana Point. See “THE DISTRICT” below.

Summaries Not Definitive. 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.”

FINANCING PLAN

General

The proceeds of the sale of the Bonds will be used to (i) defease and prepay the 2003 Installment Payments and the 2003 Certificates; (ii) fund a debt service reserve fund for the Bonds; and (iii) pay certain costs of issuing the Bonds.

The Refunding of the 2003 Certificates

The 2003 Certificates were executed and delivered to refinance the acquisition of certain water, recycled water and sewer facilities improvements by refinancing a portion of the District's obligations under an Installment Sale Agreement, dated as of November 1, 1993, and causing a prepayment on a current basis of the Moulton Niguel Water District 1993 Certificates of Participation. The 2003 Certificates maturing on and after September 1, 2018 are subject to prepayment on September 1, 2016 at a prepayment price equal to the outstanding principal component of the 2003 Certificates plus accrued interest to the prepayment date, without premium.

The prepayment of the 2003 Certificates is an advance refunding for purposes of federal tax law.

The District and U.S. Bank National Association, as escrow bank (the "**Escrow Bank**"), will enter into an Escrow Agreement (the "**Escrow Agreement**") under which the Escrow Bank will establish an Escrow Fund (the "**Escrow Fund**"), into which a portion of the proceeds of the Bonds and moneys relating to the 2003 Certificates will be deposited concurrently with the issuance of the Bonds.

Moneys in the Escrow Fund will be invested in federal securities and, together with expected investment earnings, will be sufficient for the purposes described in the preceding paragraphs. Sufficiency of the deposits for those purposes will be verified by _____, _____ ("**Verification Agent**"). See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" below.

The 2003 Certificates to be prepaid are identified below:

<u>Maturity Date</u>	<u>Outstanding Principal Amount</u>	<u>Rate</u>	<u>Redemption Price</u>	<u>CUSIP[†] Number</u>
2018	\$2,135,000	5.000%	100.00	620220 BF9
2019	2,240,000	5.000	100.00	620220 BG7
2020	2,355,000	5.000	100.00	620220 BH5
2021	2,470,000	5.000	100.00	620220 BJ1
2022	2,595,000	5.000	100.00	620220 BK8
2023	2,725,000	5.000	100.00	620220 BL6

[†] Copyright 2015, 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 Purchaser assumes any responsibility for the accuracy of these CUSIP data.

The amounts held and invested by the Escrow Agent in the Escrow Fund are pledged solely to the payment of the 2003 Installment Payments and the 2003 Certificates. Neither the funds deposited in the Escrow Fund nor the interest on the invested funds will be available for the payment of debt service on the Bonds.

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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/Less Original Issue Discount	
Moneys Relating to the 2003 Certificates	
<i>Total Sources:</i>	\$

Uses:

Transfer to Escrow Agent	\$
Transfer to Reserve Fund	
Costs of Issuance ⁽¹⁾	
<i>Total Uses:</i>	\$

1) Includes Purchaser's discount, Trustee and Escrow fees, Financial Advisor fees, Bond Counsel and Disclosure Counsel fees, printing costs, rating agency fees, and other related costs.

Debt Service Schedule

Scheduled debt service on the Bonds, Prior Parity Obligations and Prior Governmental Loans is shown in the following table.

MOULTON NIGUEL WATER DISTRICT 2015 Revenue Refunding Bonds Debt Service Schedule

Bond Year Ending <u>June 1</u>	Prior Parity <u>Obligations</u>	Prior Governmental <u>Loans</u>	2015 Bonds Principal <u>Amount</u>	2015 Bonds Interest <u>Amount</u>	2015 Bonds Total Debt <u>Service</u>	Total Parity <u>Debt</u> <u>Service</u>
2015	\$6,265,300	\$2,309,012				
2016	6,260,400	2,155,085				
2017	6,262,700	2,001,158				
2018	6,257,100	2,001,158				
2019	4,293,600	1,503,816				
2020	4,293,600	1,184,595				
2021	4,293,600	1,184,595				
2022	4,293,600	1,184,595				
2023	4,098,976	1,184,595				
2024	4,098,976	--				
Total	\$50,417,852	\$14,708,609				

THE BONDS

Description

The Bonds will be dated their date of issuance and delivery, will bear interest at the rates per annum set forth on the inside cover page hereof payable semiannually on March 1 and September 1 (each, an “**Interest Payment Date**”), commencing September 1, 2015, and will mature on the dates and in the amounts set forth on the inside cover page. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof, so long as no Bond may have more than one maturity date. 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. See “APPENDIX F - BOOK-ENTRY ONLY SYSTEM” below. Ownership may be changed only upon the registration books maintained by U.S. Bank National Association (the “**Trustee**”) as provided in the Indenture. See the discussion under “Transfer and Exchange” below.

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

- (a) a Bond is authenticated between an Interest Payment Date and the 15th calendar day of the month immediately preceding such Interest Payment Date (each, a “**Record Date**”), in which event it will bear interest from such Interest Payment Date,
- (b) a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the date of original delivery of the Bonds, or
- (c) interest on any Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Interest on the Bonds (including the final interest payment upon maturity) is payable when due by check or draft of the Trustee mailed to the Owner thereof at such Owner’s address as it appears on the Registration Books at the close of business on the preceding Record Date; provided that at the written request of the Owner of at least \$1,000,000 aggregate principal amount of Bonds, which written request is on file with the Trustee as of any Record Date, interest on such Bonds will be paid on the succeeding Interest Payment Date to such account in the United States as specified in such written request.

While the Bonds are held in the book-entry only system of DTC, all such payments will be made to Cede & Co., as the registered Owner of the Bonds. The principal of the Bonds and any premium upon redemption, are payable in lawful money of the United States of America upon presentation and surrender thereof at the principal corporate trust office of the Trustee. See “APPENDIX F – BOOK ENTRY ONLY SYSTEM.”

No Optional Redemption

The Bonds are not subject to optional redemption prior to their respective stated maturities.

Transfer and Exchange

So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, transfers and exchanges of Bonds will be made in accordance with DTC procedures. See "Appendix F" below. Any Bond may, in accordance with its terms, be transferred, upon the registration books of the Trustee, upon surrender of such Bond to the Trustee at its Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever any Bond or Bonds is surrendered for registration of transfer, the District will execute and the Trustee will authenticate and deliver a new Bond or Bonds, of like series, interest rate, maturity and principal amount of authorized denomination. The Trustee may refuse to transfer, either (a) any Bonds during the period 15 days prior to the date established by the Trustee for the selection of Bonds for redemption, or (b) any Bonds selected by the Trustee for redemption.

SECURITY FOR THE BONDS**Pledge of Tax Revenues and Net Revenues**

The following paragraphs summarize the initial security for the Bonds under the Indenture. Some of the provisions in the Indenture described below will automatically be amended as described in "– Automatic Amendments" below. The District believes these amendments will not have any material impact on the owners of the Bonds and are primarily non-substantive.

Pledge of Tax Revenues and Net Revenues. The Bonds and any Parity Debt Service are equally secured by a first pledge, charge and lien upon, first, the Tax Revenues and, second, the Net Revenues, and the Bonds are further secured by a first pledge, charge and lien upon moneys in the Debt Service Fund and the Reserve Fund, including all amounts derived from the investment of such moneys, without priority for series, issue, number or date, and the payment of the interest on and principal of the Bonds shall be and is secured by an exclusive pledge, charge and lien upon such moneys. The Tax Revenues and Net Revenues will constitute a trust fund for the security and payment of the Bonds and Parity Debt Service.

Pursuant to the Indenture, the District further covenants and agrees that the payment of the Governmental Loans are secured by a pledge of Governmental Loans Pledged Revenues, which includes Tax Revenues and that portion of Net Revenues described in the definition of Governmental Loans Pledged Revenues, on a parity with the Bonds and Parity Debt with respect to Tax Revenues and that portion of Net Revenues described in the definition of Governmental Loans Pledged Revenues.

The District will have no obligation to use any funds other than the Tax Revenues and the Net Revenues and with respect to the Bonds, moneys in the Debt Service Fund and the Reserve Fund, directly or indirectly, to pay principal of or interest on the Bonds or Parity Debt Service; nor are any funds other than the Tax Revenues and the Net Revenues and with respect to the Bonds, moneys in the Debt Service Fund and the Reserve Fund, so pledged as security for the payment of the debt service on the Bonds or Parity Debt Service.

The obligation of the District to pay debt service on the Bonds and Parity Debt Service does not constitute an obligation of the District for which the District is obligated to levy any form of taxation.

Set forth in the following paragraphs are some of the terms defined in the Indenture that are most relevant to understanding the pledge of Tax Revenues and Net Revenues to the Bonds and any Parity Debt Service.

Definitions. Set forth below are the definitions of certain terms used in the Indenture:

"Parity Debt Service" means, for any Fiscal Year, the sum of (a) the interest due and payable during such Fiscal Year for all outstanding Parity Obligations, assuming that principal thereof is paid as scheduled and that any mandatory sinking fund payments on any Parity Obligations are made as scheduled, (b) that portion of the principal amount due on all outstanding Parity Obligations maturing during such Fiscal Year, (c) that portion of the principal amount of all such outstanding Parity Obligations required to be prepaid or paid (together with the prepayment premiums, if any, thereof) during such Fiscal Year, and (d) any fees payable during such Fiscal Year under the Parity Obligation Instruments.

"Parity Obligations" means (i) the 2010 Installment Sale Agreement, (ii) the 2009 Installment Sale Agreement, (iii) the Bonds; (iv) CIEDB Agreements; and, (v) the Additional Obligations issued under the Indenture.

"Additional Obligations" means all bonds, certificates of participation, notes or other obligations hereafter issued or entered into by District, payable out of the Tax Revenues and/or the Net Revenues and which, as provided in the Indenture, a Parity Obligation Instrument, or any subsequent indenture or similar instrument or document of District, rank on a parity with the Parity Obligations.

"Parity Obligation Instruments" means the 2010 Installment Sale Agreement, the 2009 Installment Sale Agreement, the Indenture and any other resolution, agreement, capital lease, installment sale agreement, indenture, trust agreement or other instrument under which any Additional Obligation is issued or incurred under the Indenture.

"Additional Governmental Loans" means all loans issued or entered into by the District, payable out of the Tax Revenues and/or the Governmental Loans Pledged Revenues and which, as provided in the Indenture, a Governmental Loan Instrument, or any subsequent loan agreement, indenture or similar instrument or document of District, rank on a parity with the Governmental Loans.

"Governmental Loans" means (i) the SRF Loans, (ii) the DWR Loan; and (iii) any Additional Governmental Loans.

"Governmental Loan Instruments" means loan documents under which the Governmental Loans outstanding on the date of delivery of the Certificates were incurred, and any other resolution, agreement, capital lease, installment sale agreement, indenture, trust agreement, loan agreement or other instrument under which any future Governmental Loans are issued or incurred.

"Governmental Loan Payments" means, for any period, the sum of all of the payments due under Governmental Loans in such period.

"Governmental Loans Pledged Revenues" means (i) Tax Revenues and (ii) those Revenues consisting of revenues received by the District from sales of recycled water, rebate

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payments received by the District from Metropolitan Water District pursuant to Metropolitan Water District's Local Projects Program and revenues received by the District from wastewater service charges.

"Refundable Credits" means all payments received by the District from the U.S. Department of Treasury as the tax credit equal to 35% of the interest component of the Parity Obligations related to the 2009 Certificates, as provided for in Sections 54AA(b) and 6431 of the Internal Revenue Code of 1986, as amended (the **"Code"**).

Definition of Net Revenues. The Indenture defines Net Revenues and related terms as follows:

"Net Revenues" means Revenues less Maintenance and Operation Expenses.

"Revenues" means (i) Operating Revenues, (ii) Non-Operating Revenues, and (iii) the earnings on, and income derived from, the investment of Operating Revenues and Non-Operating Revenues.

"Operating Revenues" means revenues received by the District from the levy and collection of Charges.

"Charges" means all rates, fees (including capital facility connection and capacity fees, to the extent permitted by and in accordance with law), charges, standby charges (other than those standby charges levied pursuant to California Water Code Sections 36425 and 35506 and pledged to debt service on the District's outstanding general obligation bonds and any additional general obligation bonds to be issued in the future), assessments and other moneys derived by the District from the sale, furnishing and supplying of water, recycled water and sewer or other services furnished or supplied through the facilities of, or in the conduct or operation of, the water, recycled water and sewer systems of the District.

"Non-Operating Revenues" means rents, insurance and condemnation proceeds, amounts appropriated from the Rate Stabilization Fund, the Refundable Credits, and other moneys (other than Operating Revenues) received by the District in connection with the water, recycled water and sewer systems, and the proceeds derived by the District directly or indirectly from the sale, lease or other disposition of any part of, or rights, in the District's water, recycled water and sewer systems. *This definition is amended in the manner and in the circumstances set forth in "- Automatic Amendments."*

"Maintenance and Operation Expenses" means the reasonable and necessary costs spent or incurred by District for maintaining and operating water, recycled water and sewer systems, calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve such systems in good repair and working order, lease or sublease payments paid by the District in connection with the 1989 \$34,495,000 (original principal amount) Municipal Water District of Orange County, Water Facilities Corporation Adjustable/Fixed Rate Certificates of Participation (Allen-McColloch Pipeline Flow Augmentation Project) Series A-D of said Corporation, and including but not limited to administrative costs of the District, salaries and wages of employees, payments to any employee retirement plan, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or engineers, and necessary costs of or charges required to be paid by it to comply with the terms of the Bonds or of this Indenture, including any amounts required to be paid to the United States of America pursuant to the Indenture.

“Maintenance and Operation Expenses” do not include (i) depreciation, replacements and obsolescence charges or reserves therefor, (ii) amortization of intangibles or other bookkeeping entries of a similar nature, (iii) costs of capital additions, replacements, betterments, extensions or improvements to the District water, recycled water and sewer systems, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, and (iv) charges or assessments for the payment of principal, premium, if any, and interest on any general obligation bonds heretofore or hereafter issued for the water, recycled water and/or sewer system purposes.

Definition of Tax Revenues. The Indenture defines “**Tax Revenues**” as the amount of property tax revenues (as defined in Section 95 of the Revenue and Taxation Code of the State of California) apportioned, allocated and paid by the Orange County Tax Collector to District pursuant to Section 75.70 and Chapter 6 (commencing with Section 95) of Part 0.5 of Division 1 of the Revenue and Taxation Code of the State of California, as amended from time to time). *This definition is amended in the manner and in the circumstances set forth in “- Automatic Amendments.”*

Payment of Debt Service

Flow of Funds. The District will agree to pay principal of and interest on the Bonds when due, from the following sources:

- (1) first, from Tax Revenues; and
- (2) second, to the extent Tax Revenues are not sufficient to pay all required amounts, from Net Revenues.

In order to provide for the payment of the principal of and interest on the Bonds when due, the District will, at least five Business Days prior to each Interest Payment Date, transfer to the Trustee for deposit into the Debt Service Fund an amount equal to the principal of and interest due on the next succeeding Interest Payment Date, less any funds then on hand in the Debt Service Fund.

The Trustee will apply amounts in the Debt Service Fund solely for the purpose of (A) paying the interest on the Outstanding Bonds when due and payable, and (B) 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 Debt Service Fund to the District for any lawful use.

Rate Stabilization Fund

General. The District has established a rate stabilization fund (the “**Rate Stabilization Fund**”). Under the Indenture, the District covenants to maintain the Rate Stabilization Fund separate and apart in its Treasury from other funds for as long as any Bonds remain unpaid. As of February 28, 2015, the Rate Stabilization Fund had a balance of \$10,987,368.

Deposits. From time to time and at the discretion of the District, the District may deposit amounts in the Rate Stabilization Fund from Unrestricted Fund Balances and/or Surplus Revenues.

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Permitted Uses. Pursuant to the Indenture, the District may use amounts on deposit in the Rate Stabilization Fund to pay Maintenance and Operation Expenses; provided, the District maintains amounts in the Rate Stabilization Fund as described above under "Rate Covenant."

It is important to note that, pursuant to the Indenture, moneys on deposit in the Rate Stabilization Fund may not be used to pay debt service on the Bonds, Parity Debt Service or amounts necessary to replenish the Reserve Fund established under the Indenture, or to make deposits to any Parity Reserves (i.e., reserve funds for Parity Obligations).

Maintenance of Rate Stabilization Fund at Minimum Balance. Except as provided below, the District covenants in the Indenture to maintain the Rate Stabilization Fund in an amount of not less than 50% of Maximum Annual Debt Service (the "Rate Stabilization Fund Minimum Balance" or "Minimum Balance").

The District may allow the balance on hand in the Rate Stabilization Fund to fall below the Rate Stabilization Fund Minimum Balance if the District collects Tax Revenues and/or Net Revenues in an amount equal to 125% of Annual Debt Service for each of two consecutive Fiscal Years.

If:

(1) the District has been permitted to allow funds in the Rate Stabilization Fund to fall below the Rate Stabilization Fund Minimum Balance, as provided above; and

(2) the District does not in any Fiscal Year thereafter collect Charges at least equal to 125% of Debt Service due in that year;

then the covenant set forth in the previous paragraph to maintain the Rate Stabilization Fund Minimum Balance shall again become effective on the first day of the next succeeding Fiscal Year (the "Restoration Date"). The District covenants in the Indenture that during the Fiscal Year beginning on any Restoration Date, it will budget for and appropriate amounts sufficient to, and will cause the balance in the Rate Stabilization Fund to be restored to an amount equal to the Rate Stabilization Fund Minimum Balance. If the Rate Stabilization Fund Minimum Balance is so restored during such Fiscal Year, then the District will not be deemed to be in default with respect to its rate covenant for such preceding Fiscal Year.

Prior Parity Obligations; Limitations on Additional Obligations and Superior Obligations

General. Under the Indenture, the District may issue "Additional Obligations" of the District payable from and secured by a pledge of and lien upon any of the Tax Revenues and/or the Net Revenues only in compliance with the conditions described below.

Superior Obligations. In order to further protect the availability of Tax Revenues and Net Revenues and the security for the Bonds and Parity Obligations, the District agrees in the Indenture that it will not, so long as any Bonds or Parity Obligations are outstanding, issue or incur any obligations payable from the Tax Revenues and/or Net Revenues which are superior to the Bonds or the Parity Obligations.

Prior Parity Obligations. Debt service on the Prior Parity Obligations is payable from Tax Revenues and Net Revenues on a parity with the payment of debt service on the Bonds and, with

respect to Governmental Loan Pledged Revenues, the Prior Governmental Loans. See “INTRODUCTION – Prior Parity Obligations” and “- Prior Governmental Loans.”

Additional Obligations. The District covenants in the Indenture that, except for obligations issued or incurred to refund the Bonds, or to otherwise prepay or refund Parity Obligations which are presently outstanding, the District will not issue or incur any Additional Obligations unless, except as set forth in “- Automatic Amendments”:

(1) The District is not in default under the terms of the Indenture or outstanding Parity Obligation Instruments;

(2) Either (i) the Net Revenues, as shown by the books and records of District for the latest Fiscal Year or for any 12 consecutive month period within the last complete 18-month period ended not more than one month before the issuance of or incurrence of such Additional Obligations, as set forth in a certificate of an Independent Consultant, together with the Tax Revenues, or (ii) the estimated Net Revenues for the first complete Fiscal Year when the improvements to the water, recycled water or sewer system financed with the proceeds of the Additional Obligations will be in operation, as estimated by and set forth in a certificate of an Independent Consultant, together with the Tax Revenues, plus, at the option of District, any or all of the items set forth below, will have amounted to not less than 1.10 times Maximum Annual Debt Service (as defined below) in any Fiscal Year thereafter; provided, that in calculating Maximum Annual Debt Service, the District may exclude (i) amounts on deposit in the Debt Service Fund under the Indenture and debt service funds created under Parity Debt Instruments for the Parity Obligations, and (ii) amounts on deposit in any debt service funds created under Governmental Loan Instruments for Governmental Loans; and

(3) A Parity Reserve is established for the proposed Additional Obligations which in the case of a cash reserve is equal to an amount calculated using the formula established for the Reserve Requirement, but with respect to the amount or debt service of the Additional Obligations, which shall be established as a reserve fund separate and apart from the Reserve Fund under the Trust Indenture and from Parity Reserves under any outstanding Parity Obligation Instruments. *This provision is deleted in the event of the circumstances set forth in “- Automatic Amendments.”*

For purposes of the calculations required in paragraph (2) above, Net Revenues may be adjusted to include:

(1) the estimated annual amount expected to be received from any increase in District rates or charges, calculated on the basis of any percentage or dollar increase authorized by the Board of Directors either during or subsequent to the reporting period, but in no event later than the date of the Parity Obligation Instrument authorizing the Additional Obligations for which the calculation is made; and

(2) to the extent not included in the previous paragraph, an amount equal to 75% of the anticipated Net Revenues expected to be derived from each addition, betterment, extension or improvement to the water, recycled water or sewer system which may be acquired or constructed from proceeds of the Additional Obligations for which the calculation is made. Such estimates are required to be based upon rates and charges which are in effect on or prior to the date of the Parity Obligation Instrument authorizing the Additional Obligations for which the calculation is made.

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The Indenture defines “**Maximum Annual Debt Service**” as follows: as of the date of calculation, the maximum amount of debt service on the Bonds, Governmental Loan Payments, and Parity Debt Service due in any Certificate Year prior to the final maturity of the Bonds, and for purposes of: (i) the issuance of Additional Obligations, includes the maximum amount of Debt Service due on any Additional Obligations subsequent to the issuance of such Additional Obligations; and (ii) the issuance of Additional Governmental Loans, includes the maximum amount of Governmental Loan Payments due on any Additional Governmental Loans subsequent to the issuance of such Additional Governmental Loans

Prior Governmental Loans; Limitations on Additional Government Loans

Existing Governmental Loans. The District has previously incurred the Governmental Loans listed in clauses (i) and (ii) of the definition of the term “Governmental Loans”, which are secured by a pledge of the Governmental Loan Pledged Revenues. The Governmental Loans are on a parity with the Parity Obligations with respect to Tax Revenues and those Net Revenues consisting of Governmental Loan Pledged Revenues.

Additional Governmental Loans. The District covenants in the Indenture that, except for obligations issued or incurred to prepay or refund Governmental Loans which are presently outstanding, the District will not issue or incur any Additional Governmental Loans unless, except as set forth in “- Automatic Amendments:”

(1) The District is not in default under the terms of the Indenture or outstanding Governmental Loan Instruments;

(2) Either (i) the Governmental Loans Pledged Revenues, as shown by the books and records of the District for the latest Fiscal Year or for any 12 consecutive month period within the last complete 18-month period ended not more than 1 month before the issuance of or incurrence of such Additional Governmental Loan, as set forth in a certificate of an Independent Consultant, or (ii) the estimated Governmental Loans Pledged Revenues for the first complete Fiscal Year when the improvements to the water, recycled water or sewer system financed with the proceeds of the Additional Governmental Loan shall be in operation, as estimated by and set forth in a certificate of an Independent Consultant, plus, at the option of District, any or all of the items set forth hereinafter in this covenant designated under “Adjustments to Net Revenues” below, will have amounted to not less than 1.10 times Maximum Annual Debt Service in any Fiscal Year thereafter (for this purpose, Maximum Annual Debt Service may exclude (i) amounts on deposit in any debt service funds created under Governmental Loan Instruments for Governmental Loans and (ii) amounts on deposit in the Installment Payment Fund under the Trust Indenture and debt service funds created under Parity Debt Instruments for Parity Obligations); and

(3) A reserve is established for the proposed Additional Governmental Loan which in the case of a cash reserve is equal to an amount calculated using the formula established for the Reserve Requirement, but with respect to the amount or debt service of the Additional Governmental Loan, which shall be established as a reserve fund separate and apart from the Reserve Fund under the Trust Indenture and from reserves under any outstanding Governmental Loan Instruments. *This provision is deleted in the event of in the circumstances set forth in “- Automatic Amendments.”*

Adjustments to Governmental Loan Pledged Revenues. For purposes of the calculations described in paragraph (2) under “Additional Governmental Loans” above, Governmental Loan Pledged Revenues may be adjusted to include:

(1) the estimated annual amount expected to be received from any increase in District rates or charges, calculated on the basis of any percentage or dollar increase authorized by the Board of Directors either during or subsequent to the reporting period, but in no event later than the date of the Governmental Loan Instrument authorizing the Additional Governmental Loan for which the calculation is made; and

(2) to the extent not included in the previous paragraph, an amount equal to 75% of the anticipated Governmental Loan Pledged Revenues expected to be derived from each addition, betterment, extension or improvement to the water, recycled water or sewer system which may be acquired or constructed from proceeds of the Additional Governmental Loan for which the calculation is made. Such estimates are required to be based upon rates and charges which are in effect on or prior to the date of the Governmental Loan Instrument authorizing the Additional Governmental Loan for which the calculation is made.

Automatic Amendments

At such time as the Governmental Loans listed in clauses (i) and (ii) of the definition of the term “Governmental Loans” and the Parity Obligations listed in clauses (i), (ii), (iv) and (v) of the definition of the term “Parity Obligations” are no longer outstanding on their terms, then the following provisions of this Indenture shall be automatically amended without any further consent or notice required:

(1) Automatic Amendments to the covenant allowing for the issuance of Parity Obligations.

(i) The requirement for a Parity Reserve set forth in “Prior Parity Obligations; Limitations on Additional Obligations and Superior Obligations - Additional Obligations” shall be eliminated and shall have no further force or effect.

(ii) All references to “Tax Revenues” in “Prior Parity Obligations; Limitations on Additional Obligations and Superior Obligations” shall be deemed to have been deleted and shall have no further force or effect.

(2) Automatic Amendments to the covenant allowing for the issuance of Additional Governmental Loans. The requirement for a reserve set forth in “Prior Governmental Loans; Limitations on Additional Government Loans - Additional Governmental Loans” shall be eliminated.

(3) Amendments to Defined Terms.

(i) The defined term “Tax Revenues” shall be deemed to have been deleted and shall have no further force or effect. *It is important to understand that the revenues currently defined as “Tax Revenues” will be added to a new clause (E) in the definition of “Non-Operating Revenues;” consequently, this amendment will have no substantive impact.*

(ii) The defined term “Non-Operating Revenues” shall be amended to mean (A) rents, insurance and condemnation proceeds, (B) amounts appropriated from the Rate Stabilization Fund, (C) the Refundable Credits, (D) the proceeds derived by the District directly or indirectly from the sale, lease or other disposition of any

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part of, or rights, in the District's water, recycled water and sewer systems, (E) the amount of property tax revenues (as defined in Section 95 of the Revenue and Taxation Code of the State of California) apportioned, allocated and paid by the Orange County Tax Collector to District pursuant to Section 75.70 and Chapter 6 (commencing with Section 95) of Part 0.5 of Division 1 of the Revenue and Taxation Code of the State of California, as amended from time to time) and (F) other moneys (other than Operating Revenues) received by the District in connection with the water, recycled water and sewer systems.

(4) Deemed Deletion of Tax Revenues. The references to the term "Tax Revenues" that are in addition to those described in the preceding subsections above shall be deemed to have been deleted and shall have no further force or effect.

Rate Covenant

The District covenants in the Indenture that in each Fiscal Year it will, to the maximum extent permitted by law, annually fix and collect Charges for water, recycled water and sewer services which, after allowance for contingencies and error in estimates, will be at least sufficient to provide Net Revenues which, when added to Tax Revenues, will equal at least the Rate Covenant Percentage (defined below) of the sum of:

(1) Debt Service (i.e., the principal of and interest on the Outstanding Bonds plus Parity Debt Service) and Governmental Loan Payments due in the Fiscal Year during which such Tax Revenues and Net Revenues will be collected; and

(2) any required deposits to the Reserve Fund (as set forth in the Indenture) and to any Parity Reserves.

The term "Rate Covenant Percentage" is defined in the Indenture to mean:

(1) 100%, so long as the amounts on hand in the Rate Stabilization Fund are at least equal to the Rate Stabilization Fund Minimum Balance (see "Rate Stabilization Fund" above); and

(2) 125%, if funds on hand in the Rate Stabilization Fund do not equal or exceed the Rate Stabilization Fund Minimum Balance.

Reserve Fund

General. The Trustee will establish a special fund designated the "**Reserve Fund.**" All moneys at any time on deposit in the Reserve Fund will be held by the Trustee in trust for the benefit of the owners of the Bonds.

Reserve Requirement. Except for transfers described below, the District is obligated to maintain the "Reserve Requirement" in the Reserve Fund until the Bonds are paid or provided for in full pursuant to the terms of the Indenture is terminated.

"**Reserve Requirement**" is defined in the Indenture to mean, as of any date of calculation, an amount equal to the lowest of (1) Maximum Annual Debt Service on the Bonds; (2) 10% of the principal amount of the Outstanding Bonds; or (3) 125% of Average Annual Debt Service on the Bonds.

Restoration of Reserve Fund. If and to the extent amounts are withdrawn from the Reserve Fund to pay debt service on the Bonds, the amount necessary to restore the Reserve Fund to the Reserve Requirement shall be collected and deposited in the Reserve Fund within 30 days after such withdrawal.

If amounts on deposit in the Reserve Fund shall at any time be less than the Reserve Requirement, in the event such deficiency results from a decrease in the market value of the Authorized Investments on deposit in the Reserve Fund, such deficiency shall be made up from the first Net Revenues received after making the required deposits to the Debt Service Fund over a period of not more than 4 months, in 4 substantially equal payments.

Additional Covenants

The District makes certain additional covenants in the Indenture including a covenant to maintain the Systems and a covenant to maintain insurance (see "APPENDIX A – Summary of Principal Legal Documents").

Limited Obligation

The District's obligation to pay debt service on the Bonds is a special obligation, limited solely to the Tax Revenues and the Net Revenues. Under no circumstances will the District be required to advance any moneys derived from any source of income other than the Tax Revenues, the Net Revenues and other sources specifically identified in the Indenture for the payment of debt service on the Bonds, or to levy any form of taxation. No other funds or property of the District will be liable for the payment of debt service on the Bonds.

THE DISTRICT**General Description; Service Area**

Formation. The District was established in November 1960 under provisions of the California Water District Law, Division 13 of the Water Code. The District was formed for the purpose of providing a water supply for the Moulton Niguel service area. In 1963, the California Water District Act was amended, allowing California water districts to provide wastewater and water reclamation services. On July 1, 1964 the District began operation and management of wastewater services previously provided by Orange County Sanitation District No. 12.

Service Area. The District's service area encompasses approximately 36.5 square miles and includes the Cities of Aliso Viejo, Laguna Niguel, Laguna Hills, Mission Viejo and Dana Point. Elevation within the District ranges from 100 to 920 feet above sea level. Climate is typical of the coastal plains of Southern California, with temperatures mild and relatively uniform. The District provides water and collects, treats and recycles wastewater in its service area. By agreement, the District also serves additional customers outside its boundaries.

Service Area Connections and Population. The table below highlights the District's growth in population, water and wastewater connections over the past 10 fiscal years. Based upon historical data, the District has estimated population figures by assuming that there are 2.61 people per water connection.

Table 1
MOULTON NIGUEL WATER DISTRICT
Service Connections and Estimated Population
Fiscal Years 2004-05 to 2013-14

Fiscal Year	Water Service Connections	Estimated Population
2005	53,255	165,636
2006	53,343	165,918
2007	53,520	166,168
2008	53,804	166,677
2009	53,938	166,964
2010	54,174	167,408
2011	54,374	164,450
2012	54,597	168,402
2013	54,790	168,174
2014	54,899	169,212

Source: Moulton Niguel Water District

Board of Directors

The District is governed by a seven-member Board of Directors elected by registered voters in the District to serve staggered four-year terms. Each Director represents a geographical division based upon comparable populations which is determined by the District and submitted to the Registrar of Voters. The following table lists the current directors, noting the initial year of election or appointment to office and the final date of the current term of office.

<u>Board of Directors</u>	<u>First Elected/ Appointed</u>	<u>End of Term</u>
Lawrence R. Lizotte	1970	12/2018
Richard S. Fiore	1977	12/2016
Gary R. Kurtz	1992	12/2016
Donald Froelich, <i>President</i>	2008	12/2018
Brian Probolsky, <i>Vice-President</i>	2008	12/2016
Scott F. Colton	2010	12/2018
Duane D. Cave	2014	12/2016

Employees

The District had 115 full-time employees as of June 30, 2014.

Deferred Compensation Plan. The District provides its employees and its Board members with a Section 457 Deferred Compensation Plan (the “**Deferred Compensation Plan**”). The Plan is available to all full-time employees and Board members. Participants may defer receipt of a portion of their salary until future years. The employees are not liable for income taxes on amounts deferred until the funds are withdrawn. Participants invest their funds with a third party administrator, Nationwide Retirement Solutions, Inc..

Defined Contribution Plan. The District also sponsors the Moulton Niguel Water District Money Purchase Pension Trust (“**Money Purchase Plan**”), a defined contribution pension plan. The District’s Board of Directors established the Money Purchase Plan and is authorized to amend the Money Purchase Plan and to name its trustees. All employees participating in the Deferred Compensation Plan are eligible to participate in the Money Purchase Plan. Plan investments are held in trust by Lincoln Financial.

The District matches up to 2% of an employee’s salary to the Money Purchase Plan if the employee elects to participate in the Deferred Compensation Plan. Employer contributions were \$125,710 for the year ended June 30, 2014. All contributions are fully vested. The trustee maintains individual accounts for each participant. Each participant provides direction for investment of its account balance. Contributions, plus investment returns, are distributed to participants upon termination of employment.

Pension. The District contributes to the California Public Employees’ Retirement System (“**CalPERS**”), a cost-sharing 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 funds these benefits according to actuarially determined contribution rates for both the employee and employer. Employees hired prior to July 28, 2009 (“Tier 1 employees”) are required to make a contribution equal to 3% of their annual covered salary, and the District contributes an amount equal to the remaining 4% of the contribution on their behalf. Employees hired after July 28, 2009 but before January 1, 2013 (“Tier 2 employees”) are required to

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contribute the full employee contribution, which is equal to 7% of their annual covered salary. Employees hired after January 1, 2013 ("Tier 3 employees") are required to contribute the full employee contribution, which is equal to 6.5% of their covered payroll. Employee contributions paid by the District on behalf of Tier 1 employees were \$201,398 for the year ended June 30, 2014. The required employer contribution rate for the year ended June 30, 2014 was 12.3667% of Tier 1 employees' covered payroll, however the actual rate was 11.446% which includes a one-time rate adjustment due to overpayment. The required employer contribution rate for the year ended June 30, 2014 for Tier 2 employees and Tier 3 employees was 11.709% and 6.700%, respectively, of employees' covered payroll for employees. The most recent actuarial valuations are dated June 30, 2013 and are available upon request.

The following table identifies the required contributions for the last four fiscal years:

Table 2
MOULTON NIGUEL WATER DISTRICT
Pension Obligations

Fiscal Year	Annual Required Contribution (ARC)	Percentage of ARC Funded	Net Pension Obligation
2011	\$1,129,261	100%	-
2012	1,076,083	100	-
2013	1,084,571	100	-
2014	1,091,727	100	-

In fiscal year 2003, California legislation mandated that all agencies with less than 100 active members be enrolled in a risk-sharing pool with all other agencies in the State with similar benefit packages. At the time of joining the risk pool, a "side fund" was created to account for the difference between the funded status of the District's Plan and the funded status of the risk pool. CalPERS established the risk-sharing pools in 2003 to reduce large fluctuations in employer retirement contributions caused by demographic events. Each agency has a unique contribution rate determined by the risk pools normal cost adjusted for the agencies level of benefit enhancements, funding status prior to joining the pool and normal cost prior to joining the pool. As a result, the District's obligation for the side fund pool was \$3,403,367 as of December 31, 2008. This obligation was paid in full on December 31, 2008 and as a result, reduced the District's employer contribution rates. The payment of the CalPERS side fund created a prepaid asset which is being amortized over 30 years. The amount amortized for the year ending June 30, 2014 was \$50,620.

Recent Changes by CalPERS. On March 14, 2012, the CalPERS Board voted to reduce its discount rate, which rate is attributable to its expected price inflation and investment rate of return (net of administrative expenses), from 7.75% to 7.50%. As a result of such discount rate decrease, among other things, the amounts of CalPERS member public agency contributions will increase by 1 to 2% for miscellaneous plans beginning in fiscal year 2013-14. More information about the CalPERS discount rate adjustment can be accessed through CalPERS's web site, www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2012/mar/discount-rate.xml. *The reference to this internet website is shown for reference and convenience only, the information contained within the website may not be current, has not been reviewed by the District and is not incorporated in this Official Statement by reference.*

The CalPERS Board adjustment has been undertaken in order to address underfunding of the CalPERS funds, which arose from significant losses incurred as a result of the economic crisis arising in 2008 and persists due to a slower than anticipated, subsequent economic

recovery. The District is unable to predict what the amount of CalPERS liabilities will be in the future, or the amount of the CalPERS contributions which the District may be required to make.

At its April 17, 2013 meeting, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy which spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. After this change, CalPERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period.

The new amortization and smoothing policy were used for the first time in the June 30, 2013 actuarial valuations. These valuations were performed in the fall of 2014 and will set employer contribution rates for fiscal year 2015-16. The District cannot predict how this change in amortization and smoothing policies will affect its contribution levels.

On February 18, 2014, the CalPERS Board approved new demographic actuarial assumptions based on the 2013 study of recent experience. The largest impact, applying to all benefit groups, is a new 20-year mortality projection reflecting longer life expectancies and that longevity will continue to increase. Because retirement benefits will be paid out for more years, the cost of those benefits will increase as a result. The CalPERS Board also assumed earlier retirements (Police 3% at age 50; Fire 3% at age 55; and Miscellaneous 2.7% at age 55 and 3% at age 60), which will increase costs for those groups. Finally, the CalPERS Board projected higher pay increases for long-service Safety members, which will also increase Safety costs. As a result of these changes, rates will increase beginning in fiscal year 2016-17 (based on the 6/30/14 valuation) with full impact in fiscal year 2020-21. CalPERS staff estimates that local governments could see costs rise up to 5% of payroll for average state employees and up to 9% for Safety classifications in year 5 of the phase-in.

California Public Employees' Pension Reform Act of 2013. On September 12, 2012, Governor Brown signed AB 340, a bill that enacted the California Public Employees' Pension Reform Act of 2013 ("**PEPRA**") and that amended various sections of the California Education and Government Codes, including the County Employees Retirement Law of 1937. AB 340 (i) increases the retirement age for new State, school, and city and local agency employees depending on job function, (ii) caps the annual CalPERS pension benefit payout, (iii) addresses numerous abuses of the system, and (iv) requires State, school, and certain city and local agency employees to pay at least half of the costs of their CalPERS pension benefits. PEPRA will apply to all public employers *except* the University of California, charter cities and charter counties (except to the extent they contract with CalPERS).

The provisions of AB 340 went into effect on January 1, 2013 with respect to State employees hired on that date and after; local government employee associations, including employee associations of the District, will have a five-year window to negotiate compliance with AB 340 through collective bargaining. If no deal is reached by January 1, 2018, a city, public agency or school district could force employees to pay their half of the costs of CalPERS pension benefits, up to 8 percent of pay for civil workers and 11 percent or 12 percent for public safety workers.

CalPERS predicts that the impact of AB 340 on employers, including the District, and employees will vary, based on each employer's current level of benefits. To the extent that the new formulas lower retirement benefits, employer contribution rates could decrease over time as

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current employees retire and employees subject to the new formulas make up a larger percentage of the workforce. This change would, in some circumstances, result in a lower retirement benefit for employees than they currently earn. Additionally, CalPERS notes that changes arising from AB 340 could ultimately have an adverse impact on public sector recruitment in areas that have historically experienced recruitment challenges due to higher pay for similar jobs in the private sector.

More information about AB 340 can be accessed through PERS's website at www.calpers.ca.gov/index.jsp?bc=/member/retirement/pension-reform-impacts.xml&pst=ACT&pca=ST. *The reference to this internet website is shown for reference and convenience only; the information contained within the website may not be current, has not been reviewed by the District and is not incorporated in this Official Statement by reference.*

Other Post-Employment Benefits (OPEB). The District provides other post-employment benefits ("OPEBs") to former full-time employees who retire in good standing and to Board Members who were first elected to a term of office that began prior to January 1, 1995. To counteract the costs of increasing healthcare, the District has imposed a two-tier structure. Employees hired prior to July 1, 2008 who retire from the District at a minimum of age 55 with 10 years of service with the District receive post-employment medical benefits for themselves and their dependents. Employees hired subsequent to July 1, 2008 who retire from the District at a minimum age 60 with 15 years of service with the District receive post-employment medical benefits for themselves and their dependents.

After age 65, the District provides a monthly cash allotment of \$235 per month to the retiree or former Board Member for use towards a Medical supplement policy. Dependent coverage ceases when the retiree or former Board Member reaches age 65. As of June 30, 2014, there were 30 retirees and dependents receiving benefits and 96 active plan members.

The following table shows the components of the District's annual OPEB Cost for fiscal year ended June 30, 2014, the amount actually contributed to the plan (including administrative costs), and changes in the District's Net OPEB Obligation.

Annual required contribution	\$621,148
Contribution made (including premium paid)	<u>(621,148)</u>
Change in Net OPEB Obligation	--
Net OPEB Obligation - beginning of year	<u>--</u>
Net OPEB Obligation - end of year	<u>--</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2014, are as follows:

Year Ended	Annual OPEB Cost	% of OPEB cost Contributed	Net OPEB Obligation
6/30/2012	\$650,639	100%	\$--
6/30/2013	601,596	100	--
6/30/2014	621,148	100	--

OPEB Funded Status and Funding Progress. The status of the plan as of June 30, 2013 is as follows:

Actuarial accrued liability (AAL)	\$5,539,489
Actuarial value of plan assets	<u>2,115,096</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$3,424,393</u>
Funded ratio (actuarial value of plan assets/AAL)	38%
Covered payroll (active plan members)	\$6,730,000
UAAL as a percentage of covered payroll	51%

The schedule of funding progress is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll
07/01/08	\$0	\$4,930,491	\$4,930,491	0%	\$6,365,000	77%
01/01/10	388,139	4,988,183	4,600,044	8	6,387,000	72
06/30/11	1,131,224	6,857,673	5,726,449	16	6,819,000	84
06/30/13	2,115,096	5,539,489	3,424,393	38	6,730,000	51

As of June 30, 2013, the actuarial value of the assets in the plan was \$2,115,096, resulting in a funded ratio of 38%.

See the notes to the District's fiscal year audited financial statements attached as Appendix A for additional information about the District's OPEBs.

Insurance

The District maintains \$60,000,000 primary comprehensive general liability insurance. Property damage insurance is also carried, with coverage of \$77,573,267 on structures and contents. A \$3,000,000 commercial blanket bond is maintained on employees. The District retains underground storage tank coverage of \$500,000.

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (“**JPIA**”), for the operation of a common risk management and insurance program. The program covers workers' compensation, property and liability insurance. The membership includes 291 public water agencies within California. A Board of Directors consisting of representatives from member agencies governs the JPIA. The general Board of Directors elects Executive Board members to provide oversight of the operations of the JPIA, including selection of management and approval of the operating budget.

If the District's deposits to the pool are not adequate to meet costs of claims and expenses, a retrospective adjustment to make up the difference can take place.

Litigation

There is no litigation pending or, to the District's knowledge, threatened in any way to restrain or enjoin the issuance or delivery of the Bonds, to contest the validity of the Bonds or the

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Indenture, or any proceedings of the District with respect thereto. In the opinion of the District and its counsel, there are no lawsuits or claims pending against the District which will materially adversely affect the District's ability to pay principal of and interest on the Bonds when due.

Investment Policy and Controls

Funds of the District are invested in accordance with the California Government Code and the District's investment policy. The Director of Finance or District Treasurer submits a quarterly investment report to the Board of Directors.

Long-Term Obligations

Following delivery of the Certificates and the defeasance of the 2003 Installment Payments and the 2003 Certificates, the District's only outstanding obligations payable from Net Revenues and Tax Revenues will be the Prior Parity Obligations, the Prior Governmental Loans, and the Bonds.

Audited Financial Statements

The District's Comprehensive Annual Fiscal Report for fiscal year ended June 30, 2014, which are attached to this Official Statement as Appendix A, were audited by Lance, Soll & Lunghard, LLP (the "**Auditor**"). The Auditor has not been asked to consent to the inclusion of its report in this Official Statement and has not reviewed this Official Statement.

Demographic Information

See Appendix C - "Economic and Demographic Information for the Service Area of the District" for additional information regarding the District.

Joint Power Authorities

South Orange County Wastewater Authority. The District is a member of the South Orange County Wastewater Authority ("**SOCWA**"). Pursuant to a "Joint Exercise of Powers Agreement Creating South Orange County Wastewater Authority and Terminating Aliso Water Management Agency, South East Regional Reclamation Authority, South Orange County Reclamation Authority" dated July 1, 2001, SOCWA collects, treats, beneficially reuses and disposes of wastewater in South Orange County. SOCWA operates four wastewater treatment plants ("**WWTP**") in the region, and two ocean outfall pipelines for disposal of the treated effluent from the plants. SOCWA has 10 member agencies, including 3 cities, 6 water districts and one service district. A Board of Directors consisting of representatives from the member agencies governs SOCWA. The Board of Directors controls the operations of SOCWA, including selection of management and approval of the annual budget, although the budget and certain other projects obligations are subject to ratification by the member agencies' own legislative bodies. SOCWA has Project Committees that member agencies participate in financially at various levels, depending on their capacity rights in the project. Each WWTP and outfall pipeline is a project, as well as various other physical facilities and improvements owned or operated by SOCWA for the benefit of the participating member agencies. The District's overall participation level is the highest of the member agencies, approximating 46% of SOCWA. Each member has an equal vote on all matters, regardless of capacity rights or participation levels. The District cannot be obligated for any debt issue or loan obligation of SOCWA without the District's Board of Director's approval.

The District deposits money with SOCWA to cover its share of operation and capital costs in the respective projects. At the end of each fiscal year, SOCWA analyzes its actual costs and refunds or collects additional money from its members as appropriate. These costs are Maintenance and Operation Expenses under the Indenture. In fiscal year 2013-14, the District paid \$7,835,573 to SOCWA.

Joint Regional Water Supply System. The District is one of nine members who participate in the Joint Regional Water Supply System (“**JRWSS**”). JRWSS owns and operates several pipelines and reservoirs, including the Joint Transmission Main that serves the District. See “THE SYSTEMS – Water System in General.” The District has a 48.64% ownership interest in the Joint Transmission Main.

The District deposits money with JRWSS to cover its share of operation and capital expenses. At fiscal year-end JRWSS analyzes its actual costs and refunds or collects additional money from its members as appropriate. These costs are paid as Maintenance and Operation Expenses under the Indenture. In fiscal year 2013-14, the District’s share of JRWSS expenses was \$636,849.

San Juan Basin Authority. The District is a member of the San Juan Basin Authority (“**SJBA**”) a joint powers authority formed pursuant to a “Joint Exercise of Powers Agreement Creating the San Juan Basin Authority” dated November 22, 1971, to secure and develop water rights for its member agencies. The objective of the District’s membership is to diversify and increase its water sources in the future. Additionally, the SJBA also provides basin monitoring required by the Salt and Nutrient Management Plan for all recycled water suppliers in the basin. SJBA’s membership includes the District, Santa Margarita Water District, City of San Juan Capistrano and South Coast Water District. A Board of Directors consisting of representatives from member agencies governs SJBA.

The District deposits money with SJBA to cover its share of operations in the respective projects. Surplus balances at fiscal year-end are refunded to member agencies or added to their reserves as determined by the Board of Directors. These costs are paid as Maintenance and Operation Expenses pursuant to the Indenture.

Santiago Aqueduct Commission. The District is a member of the Santiago Aqueduct Commission (“**SAC**”). SAC operates and maintains the Baker Pipeline, which conveys untreated water from the Metropolitan Water District (“**MWD**”) to south Orange County retail water agencies. The District has recently acquired 13 cubic feet per second of capacity in the Baker Pipeline to supply the Baker Water Treatment Plant, which is currently under construction and the District is responsible for the proportional costs to operate and maintain the Baker Pipeline, including administrative costs. SAC has six members, including the District. A Board of Directors consisting of representatives of the six agencies governs the SAC. Irvine Ranch Water District maintains the infrastructure, collects money to cover expenses from the members, and maintains the records for SAC.

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THE SYSTEMS

General

The following table lists the District's major facilities:

<u>Facility</u>	<u>Number</u>
Takeout Structures	13
Potable Water Reservoirs	28
Potable Water Pump Stations	27
Pressure Reducing & Flow Control Facilities	37
Wastewater Lift Stations	19
Wastewater Treatment Plants	4
Water Reclamation (AWT) Facilities	2
Recycled Water Reservoirs	11
Recycled Water Pump Stations	10

Service Connections and Operating Indicators

Service Connections and Operating Indicators. The following table sets forth the number of service connections and operating indicators for the District for the past ten fiscal years.

Table 3
MOULTON NIGUEL WATER DISTRICT
Service Connections and Operating Indicators
Fiscal Years 2004-05 to 2013-14

Fiscal Year	Service Connections	Month of Peak Consumption	Peak Monthly Consumption (MGD)⁽¹⁾	Average Daily Consumption (MGD)	Daily Wastewater (MGD)	Takeouts
2004-05	53,255	August	40.33	28.84	13.4	14
2005-06	53,343	August	39.42	29.71	13.6	14
2006-07	53,520	July	41.56	32.20	13.6	14
2007-08	53,804	July	41.21	30.69	14.6	14
2008-09	53,938	August	39.30	29.24	14.6	14
2009-10	54,174	August	34.20	26.15	14.6	14
2010-11	54,374	August	31.30	24.16	12.5	13
2011-12	54,597	August	34.31	24.43	13.4	13
2012-13	54,790	August	43.50	25.10	13.6	13
2013-14	54,899	July	35.30	25.58	11.9	13

(1) MGD=Millions of gallons per day
Source: Moulton Niguel Water District

Water System in General

Potable Water Source. The District imports all of its potable water from the Metropolitan Water District of Southern California ("MWD") through its member agency, the Municipal Water District of Orange County ("MWDOC"), a wholesale importer of water from MWD. The District is a constituent agency of MWDOC and, as such, is entitled to receive water from available sources

of MWD. MWD's sources of potable water primarily include a blend of water imported from the Colorado River and from the State Water Project. All District potable water is treated at the Diemer Filtration Plant (which is owned and operated by MWD) in Yorba Linda and delivered through two major aqueduct facilities, the East Orange County Feeder #2 and the Allen-McColloch Pipeline (the "**AMP Pipeline**").

Transmission. The AMP pipeline is a 27 mile, 416 cfs pipeline constructed by MWDOC for the 11 original participants (including the District), which became operational in July 1981. Under a 1994 agreement among MWD, MWDOC and the participants, MWD agreed to purchase the AMP. Since March 27, 1995, MWD has been responsible for the operation, improvement, repair, replacement and maintenance of the AMP. MWD operates the AMP on a "utility basis," meaning that MWD is not obligated to observe original capacity allocations among the participating agencies, but may use the available capacity to deliver water to any service connections in amounts demanded, provided that MWD meets the participating agencies' requests for deliveries and certain minimal hydraulic grade line and other requirements of the 1994 sales agreement, all subject to the availability of water. MWD is obligated to monitor supply demands of the participants on the AMP, and as necessary, augment capacity to meet those needs at MWD's expense.

The District's 46 cfs Central Intertie Pipeline delivers additional water from the AMP to other areas of the District through a connection to the South County Pipeline. MWD and Santa Margarita Water District ("**SMWD**") each owns 50% of the South County Pipeline. SMWD operates and maintains the South County Pipeline. The District receives imported water from the East Orange County Feeder #2 through the Joint Transmission Main, which is operated by the Joint Regional Water Supply System.

Currently, the District operates and maintains over 700 miles of domestic water transmission and distribution pipelines. In addition, the District has 26 steel and 2 pre-stressed concrete operational storage reservoirs for a total potable water storage capacity within the District of approximately 70 million gallons. The District also operates 27 pump stations to pump water from lower pressure zones to the higher pressure zones and 37 pressure reducing stations and flow control facilities to convey water from high to low zones. The District has also participated in several projects to provide water service reliability to the local system in the event of an interruption in imported water deliveries. These projects have been implemented jointly with other water providers in South Orange County, and include capacity in the El Toro Water District R-6 reservoir, the Santa Margarita Water District Upper Chiquita Reservoir, and the Irvine Ranch Water District Interconnection Facilities. The District is also one of five participants in the Baker Water Treatment Plant, which will provide additional local water system reliability and is currently under construction.

Treatment

The District receives imported water treated from MWD's Robert B. Diemer Filtration Plant. The only treatment that is performed by the District is supplemental chloramination at the reservoir sites to control the chloramine residual throughout its distribution system.

Source of Water

General. At present, 77% of the District's water is obtained from MWD through MWDOC.

Table 4
MOULTON NIGUEL WATER DISTRICT
Historical Water Purchases from MWDOC
In Acre Feet
Fiscal Years 2009-10 through 2013-14

<u>Fiscal Year</u>	<u>Amount Purchased</u>	<u>Average Purchase Price</u>
2009-10	29,491	\$674.25
2010-11	27,360	720.96
2011-12	28,047	767.07
2012-13	28,920	818.45
2013-14	29,516	866.99

Source: Moulton Niguel Water District.

MWDOC. Orange County in general receives water from two sources. The large groundwater basin that underlies the northern half of the County provides approximately 75% of that area’s needs. The Orange County Water District (“**OCWD**”) manages the groundwater basin. The District has no rights in the OCWD basin.

South Orange County is dependent on imported water for approximately 95% of its water supply. MWDOC manages the imported water supply. The remaining 5% is provided by surface water, limited groundwater, and some water recycling. The District meets approximately 25% of water demand in its service area with recycled water.

The District recently developed a Long Range Water Reliability Plan that provides a long-term strategy and management framework for enhancing overall water supply reliability. The water supply reliability alternatives include expansion of non-potable reuse, development of conjunctive use programs, groundwater banking and recharge, and ocean water desalination. The various supply alternatives will be implemented through an adaptive management approach that will systematically assess viability, timing, costs, and funding required. Project funding will be assessed as projects are developed and may include a combination of debt and cash reserves.

Drought and Response

On August 15, 2014, the District submitted an alternate plan in response to SWRCB’s emergency drought regulations, which was approved by SWRCB. The District was only one of two water agencies in the State recognized by the SWRCB for having an effective rate structure and progressive conservation program, which they considered “superior” to the restricted outdoor watering mandates imposed by the State.

On September 16, 2014, the Governor signed legislation to strengthen local management and monitoring of groundwater basins. The legislation allows local agencies to tailor sustainable groundwater plans to their regional needs, and mandates that local groundwater management agencies be identified by 2017 and that high and medium priority basins have sustainability plans by 2020 and achieve sustainability by 2040. San Juan Creek Basin was not identified in the legislation as exempt. In November 2014, the SJBA adopted a Groundwater Management Plan that provides a basin adaptive management strategy while reviewing basin enhancement opportunities through recharge and facility improvements.

On February 19, 2015, the District adopted Ordinance 15-01 prescribing water conservation rules and regulations. The Ordinance set forth management standards for conservation and District responses to water shortages. In addition, the District's water budget-based rate structure is designed and intended to be a water demand management tool and to proportionately recover the costs of providing water service in the District. The District believes that its efforts in managing its water supply are best achieved through its water-based rate structure and the calculated water budgets provided to the District's customers.

On March 19, 2015, the Governor proposed legislation to accelerate more than \$1 billion in drought-relief spending for the State, and again urged residents to reduce water use. The Governor also said that the State will increasingly control the use of water.

On April 1, 2015, the Governor issued Executive Order B-29-15 (the "**Executive Order**") to address the ongoing drought conditions. The Executive Order, among other things, directed the SWRCB to impose restrictions to achieve a statewide 25% reduction in potable urban water usage from 2013 levels through February 28, 2016. The Executive Order further directs the SWRCB to impose restrictions to require that commercial, industrial and institutional properties immediately implement water efficiency measures to reduce potable water usage, and calls upon the SWRCB to direct urban water suppliers to develop rate structures and other pricing mechanisms, including but not limited to surcharges, fees and penalties, to maximize water conservation consistent with statewide water restrictions. The Executive Order includes several provisions to increase enforcement activity against water waste and to streamline the State and local response to drought-related initiatives. The SWRCB has not yet proposed regulations to implement the Executive Order, and the District is unable to predict the specific restrictions that the SWRCB will impose.

The SWRCB has not yet implemented regulations to the Executive Order, and the District is unable to predict the specific restrictions that the SWRCB will impose. On April 17, 2015, the SWRCB released draft regulations for public comment, which were due on April 22, 2015. The SWRCB is expected to adopt regulations on May 6, 2015. In anticipation of the continuation of drought conditions and the possibility of water conservation measures and other restrictions on water use being imposed, the District has adopted the Water Shortage Contingency Plan and established various water use efficiency programs. In addition, the District has established water rate mechanisms that among other things are intended to maintain revenues despite decreased water usage, including increases in the monthly service charge, volumetric charge and water pass through adjustment, which have been approved by the District's Board of Directors. Changes to the monthly service charge, volumetric charge and water pass through adjustment may be made without further Board action, as the District has completed the notice, public hearing and protest procedures of Proposition 218.

MWD. On August 29, 2014, MWD issued general obligation refunding bonds (the "**2014 MWD Bonds**"). In connection with the remarketing of the 2014 MWD Bonds, MWD prepared an official statement dated March 18, 2015 (the "**MWD Official Statement**"). The MWD Official Statement includes a discussion of MWD's water sources and the impact of drought conditions and environmental restrictions in Appendix A to the MWD Official Statement, which is entitled "The Metropolitan Water District of Southern California". ***Although the District believes MWD is the best source of information about MWD's water sources and operational plans, and, therefore, encourages potential investors to review the MWD Official Statement, the District can provide no assurances as to the accuracy, completeness or timeliness of the MWD Official Statement.*** The MWD Official Statement is available on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system.

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On April 14, 2015, MWD announced a 15 percent reduction in water supplies effective July 1, 2015, which includes surcharges for member agencies that surpass their allocation. MWD's resolution endorses the governor's call for a 25 percent reduction in urban water and pledges to work with the State Water Resources Control Board to implement that policy.

Emergency Storage. The District has taken steps to increase its emergency water system reliability in the event of a disruption of service in local infrastructure. The District has established a target of providing 31 days of water supplies to its customers during both planned and unplanned service interruptions. To achieve this three-fold increase in emergency storage target the District is partnering with other South County water agencies to construct a number of water supply reliability improvement projects. One such project, the Upper Chiquita Reservoir in Rancho Santa Margarita, was completed in 2011, and can store up to 266 million gallons of emergency water. An additional project, the Baker Treatment Plant in Irvine, will allow South Orange County to treat its own water when regional treatment plants shut down, and is projected to be operational in Spring of 2016. The District has been working with other water districts in the area to build interconnections, so that alternative means of delivering water will be possible. These interconnections have made it possible for the District, in emergency situations, to utilize alternative groundwater sources in north Orange County, which normally aren't available to the District.

Risk Factors. See "RISK FACTORS – Threat to Water Supply" for information about conditions that could adversely impact the availability of water to the District.

Water User Composition

The following table sets forth the number of metered accounts and metered water deliveries for the last five fiscal years.

Table 5
MOULTON NIGUEL WATER DISTRICT
Metered Accounts and Water Deliveries
Fiscal Years 2010-11 through 2013-14

<u>Fiscal Year ended June 30</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Metered Accounts					
Residential:	46,649	46,840	46,996	47,197	47,305
Commercial:	4,824	4,839	4,841	4,901	4,898
Irrigation ⁽¹⁾ :	1,395	1,387	1,395	1,369	1,367
Recycled ⁽¹⁾ :	1,244	1,262	1,265	1,292	1,299
Hydrant ⁽¹⁾ :	<u>32</u>	<u>34</u>	<u>36</u>	<u>33</u>	<u>30</u>
Total Metered Accounts:	54,144	54,374	54,597	54,790	54,899
Metered Water Deliveries (ccf)					
Residential:	8,793,965	8,256,669	8,425,779	8,511,145	8,743,618
Commercial:	1,160,292	1,099,704	1,083,288	1,116,593	1,119,044
Irrigation ⁽¹⁾ :	1,681,499	1,379,762	1,409,607	1,559,965	1,651,207
Recycled ⁽¹⁾ :	3,101,359	2,600,592	2,786,514	3,099,715	3,392,640
Hydrant ⁽¹⁾ :	<u>6,293</u>	<u>7,804</u>	<u>22,665</u>	<u>14,556</u>	<u>15,406</u>
Total Metered Water Deliveries:	<u>14,743,408</u>	<u>13,344,531</u>	<u>13,727,853</u>	<u>14,301,974</u>	<u>14,921,915</u>
Average Daily Water Consumption in Gallons/Metered Account:					
	558	503	516	535	557

(1) Irrigation, Hydrant, and Recycled Water sales do not include sewer sales.
Source: Moulton Niguel Water District

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Major Water Users

The 10 largest potable water users in fiscal year 2013-14 accounted for 4.77% of the District's annual water consumption. The table below shows the top 10 potable water users and their annual usage.

Table 6
MOULTON NIGUEL WATER DISTRICT
Ten Largest Users of Potable Water
Fiscal Year 2013-14

<u>Customer⁽¹⁾</u>	<u>Type of Property</u>	<u>Total Water Sales</u>	<u>Percentage of Total Water Sales</u>
Moritz Associates LLC	Multi Family Residential	\$180,237	0.67%
Barcelona LLC	Multi Family Residential	158,405	0.59
Bre Properties	Multi Family Residential	136,740	0.51
City of Mission Viejo	Parks, Slopes, Medians	131,899	0.49
Mission Hospital Regional Medical Center	Medical Facility	120,382	0.45
City of Laguna Niguel	Parks, Slopes, Medians	117,813	0.44
Hidden Hills Apartments	Multi Family Residential	116,916	0.44
Aliso Meadows Condo Association	Multi Family Residential	113,900	0.42
Soka University of America	Private University	113,194	0.42
Shea Properties/City Lights	Multi Family Residential	92,043	0.34
		\$1,281,529	4.77%
	Total Water Sales—FY 2013-14	\$26,876,498	

(1) Multi-family residential units are billed to single property management companies, but treated as individual occupant units.

Source: Moulton Niguel Water District

Projected Water Demand

The District believes the service area is more than 95% built-out and, as a result, it does not anticipate significant increases in demand. The District is initiating the update of its Urban Water Management Plan, as required by the State every 5 years. The update will include a detailed review of the City's land use plans that will identify any planned future growth within the service area, though limited growth is expected.

Current Water Rates

Water Budget-Based Rates. On April 21, 2011, the Board of Directors adopted Resolution 11-08, adopting a Water Budget-Based Rate Structure, which was modified on February 11, 2015, effective April 1, 2015, by adoption of Resolution 15-05. A water-budget based rate structure is seen as an equitable way to share limited water supplies because it prices water based on customers' willingness to pay and the desired level of aggregate consumption. Adoption of a revised rate structure requires compliance with the notice and public hearing requirements of Article XIID of the California Constitution. See "RISK FACTORS – Articles XIIC and XIID of the California Constitution." See also "APPENDIX G – CURRENT WATER RATES."

A recent case decided in the 4th District Court of Appeals found that the tiered pricing model of a neighboring water district was unconstitutional. See “RISK FACTORS – Articles XIII C and XIII D of the California Constitution – San Juan Capistrano Litigation.”

Residential Customers. Residential customers’ water budgets are calculated to meet the efficient demands of indoor domestic use as well as outdoor irrigation, and vary month to month based on localized weather data. More specifically, the indoor water budget is calculated based on three factors:

- 60 gallons of water per person, per day (the amount of water a person uses each day indoors).
- The number of people in the household.
- The number of days in the billing cycle.

The outdoor budget is based on three different factors:

- The amount of irrigated acreage per account.
- Daily evapotranspiration (weather).
- A plant factor of 0.70 reflecting the water needs of native plants.

Commercial Customers. Commercial water budgets are calculated using a three-year rolling average of each commercial customer’s monthly use.

Comparative Water Rates

Set forth in the following table is a comparison of the current water charges imposed by the District and water rates of neighboring agencies.

**Table 7
MOULTON NIGUEL WATER DISTRICT
Comparative Monthly Water Charges
As of April 1, 2015**

<u>Water District</u>	<u>Water Charges</u>
South Coast Water District	\$88.02
City of San Juan Capistrano	85.09
Laguna Beach County Water District	70.95
City of San Clemente	66.39
Trabuco Canyon Water District	60.14
El Toro Water District	47.67
SMWD	42.86
Moulton Niguel Water District	34.95
IRWD	29.18

(1) Charges based on single family residences using 16 ccf of water per month. For Laguna Beach County WD, South Coast WD, El Toro WD, Irvine Ranch WD and Moulton Niguel WD, all usage is assumed to be within the total water budget. The monthly meter charge is for the smallest size meter of each agency or city.
Source: Moulton Niguel Water District.

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Wastewater System

The District maintains approximately 530 miles of wastewater pipelines ranging in size from 8 inches to 33 inches. The system has 19 lift stations that pump wastewater over the ridgelines to the various treatment plants for disposal or recycling. The District currently has capacity of 22.7 million gallons per day (mgd) in four local wastewater treatment plants and is utilizing approximately 11.9 mgd of the total capacity of 22.7 mgd, or approximately 52% of its capacity.

The District is a member agency of the South Orange County Wastewater Authority (“SOCWA”), which operates four regional treatment plants (one of which will be operated by SMWD beginning July 1, 2015) and two ocean outfalls. SOCWA’S member agencies consist of three cities, six water districts, which include the District, and one service district.

SOCWA owns and operates a wastewater treatment plant, the J.B. Latham Treatment Plant, and associated ocean outfall facilities located between the coastal communities of Dana Point and Capistrano Beach in the San Juan Creek Watershed. Wastewater is delivered from the District’s collection system to the Dana Point treatment plant through an interceptor sewer jointly owned by the District and Santa Margarita Water District. SOCWA also operates a treatment facility, the Plant 3A Treatment Plant, owned by the District that is located in the San Juan Creek Watershed and treats wastewater from the District and the Santa Margarita Water District. SMWD owns capacity in the Plant 3A Treatment Plant and will operate the Plant 3A Treatment Plant beginning July 1, 2015.

SOCWA owns and operates two wastewater treatment plants and ocean outfall facilities located in the Aliso Creek Watershed: one in Laguna Beach, the Coastal Treatment Plant (“CTP”), and the second in Laguna Niguel, the Joint Regional Treatment Plant (“JRTP”). The District has capacity in both the CTP and JRTP and the associated Aliso Creek ocean outfall disposal facilities.

The following table sets forth the volume of wastewater collected by the District in the preceding five fiscal years.

Table 8
MOULTON NIGUEL WATER DISTRICT
Annual Wastewater Flow
Fiscal Years 2009-10 through 2013-14

<u>Fiscal Year</u>	<u>Total Wastewater Flow (MG/Year)</u>	<u>Million Gallons per Day (MGD)</u>
2009-10	5,329	14.6
2010-11	4,563	12.5
2011-12	4,891	13.4
2012-13	4,964	13.6
2013-14	4,344	11.9

Source: Moulton Niguel Water District.

Sewer User Composition

The table below sets forth the number of customer accounts by customer type for the last five fiscal years.

Table 9
MOULTON NIGUEL WATER DISTRICT
Customer Accounts and Wastewater Revenues
Fiscal Years 2009-10 through 2013-14

Fiscal Year, Ending June 30	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Residential	46,649	46,840	46,996	47,197	47,305
Commercial	4,824	4,839	4,841	4,901	4,898
Irrigation	1,395	1,387	1,395	1,369	1,367
Recycled Water	1,244	1,262	1,265	1,292	1,299
Hydrant	<u>32</u>	<u>34</u>	<u>36</u>	<u>33</u>	<u>30</u>
Total Accounts:	54,144	54,362	54,533	54,792	54,899

Source: Moulton Niguel Water District

Major Sewer Users

The 10 largest wastewater users in fiscal year 2013-14 accounted for approximately 5.52% of the annual wastewater revenues. The table below shows the top 10 wastewater users and the annual revenues generated by each user.

Table 10
MOULTON NIGUEL WATER DISTRICT
Ten Largest Users of Wastewater Service
Fiscal Year 2013-14

<u>Customer</u>	<u>Type of Property</u>	<u>Total Sewer Sales</u>	<u>Percentage of Total Sewer Sales</u>
Shea Properties/City Lights	Multi-family Residential	146,068	0.42%
Moritz Associates LLC	Multi-family Residential	127,260	0.31
Barcelona LLC	Multi-family Residential	158,405	0.30
Aliso Creek Sares	Multi-family Residential	94,364	0.20
Bre Properties	Multi-family Residential	86,182	0.13
Quail Creek La Paz HOA	Multi Family Residential	75,093	0.13
Laguna Serano Apts	Multi Family Residential	68,150	0.11
Aliso Meadows Condo Association	Multi Family Residential	65,874	0.11
Hidden Hills Apts	Multi Family Residential	65,045	0.10
Mission Hospital Regional Medical Center	Hospital and Medical Offices	59,621	0.09
	Total Top 10	\$946,062	5.52%
	Total Wastewater Sales for FY 2013-14	\$17,135,446	

Current Sewer Rates

Customers pay a basic service charge. The District has seen 15-20% reductions in wastewater flow as a result of increased water use efficiency indoors. Since the wastewater costs are primarily fixed and due to infrastructure maintenance and replacement, the District adopted increased wastewater rates effective April 1, 2015 so that all revenue is collected via a fixed monthly service charge in order to recover all wastewater costs as fixed revenue based on customer type and meter size. The District believes the revised rate structure complies with the notice and public hearing requirements of Article XIID of the California Constitution. See "RISK FACTORS – Articles XIIC and XIID of the California Constitution." See also "APPENDIX H – Current Sewer Rates."

Comparative Wastewater Rates

Set forth in the following table is a comparison of the current wastewater charges imposed by the District and wastewater charges of neighboring agencies.

**Table 11
MOULTON NIGUEL WATER DISTRICT
Comparative Monthly Wastewater Charges
As of April 1, 2015**

<u>Water District</u>	<u>Wastewater Charges</u>
South Coast Water District	\$56.41
City of Laguna Beach	48.42
SMWD	29.40
City of San Clemente	23.36
City of San Juan Capistrano	23.34
Moulton Niguel Water District	22.68
El Toro Water District	20.50
IRWD	20.50
Trabuco Canyon Water District	19.80

(1) Charges based on single family residences using 16 ccf of water per month and a 3/4" meter.
Source: Moulton Niguel Water District

Recycled Water System

The District has total advanced water treatment capacity of 13.8 mgd in two facilities and serves landscaped areas in the cities of Laguna Niguel, Mission Viejo, Dana Point, Laguna Hills and Aliso Viejo.

The District has constructed approximately 180 miles of recycled water distribution pipelines with five pre-stressed concrete and six steel storage reservoirs to service the recycled water system. In addition, the District has 1,000 acre feet of storage capacity in Santa Margarita Water District's Upper Oso Reservoir, located in Mission Viejo. The District has 18.7 million gallons (mg) of storage capacity within other storage reservoirs. The District operates 12 recycled water pump stations.

In addition to its own recycled water supplies, the District has an agreement with the South Coast Water District to provide up to an additional 1,000 acre feet of recycled water per year to the District. The District can receive the recycled water from South Coast Water District at a rate of up to 1.4 mgd.

Recycled Water Deliveries and User Composition

See "Water User Composition" above for information about recycled water deliveries and customer composition for the last five fiscal years.

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Major Recycled Water Users

The 10 largest recycled water users accounted for 36.60% of the annual recycled water consumption in fiscal year 2013-14. The table below shows the top ten recycled water users and their annual usage.

Table 12
MOULTON NIGUEL WATER DISTRICT
10 Largest Users of Recycled Water
Fiscal Year 2013-14

<u>Customer</u>	<u>Type of Property</u>	<u>Estimated Consumption⁽¹⁾</u>	<u>% of Total Sales⁽¹⁾</u>
Aliso Viejo Community Association	Parks, Slopes, Medians	376,506	11.10%
Aliso Viejo Country Club	Golf Course	152,255	4.49%
Mission Viejo Country Club	Golf Course	147,997	4.36%
El Niguel Country Club	Golf Course	144,525	4.26%
Arroyo Trabuco Golf Club	Golf Course	98,965	2.92%
Marina Hills PCA	Golf Course	90,586	2.67%
City of Mission Viejo	Parks, Slopes, Medians	67,433	1.99%
Soka University of America	Private University	63,535	1.87%
County of Orange	Parks, Slopes, Medians	50,690	1.49%
Caltrans District 12	Slopes, Medians	49,363	1.46%
	Top 10 Total:	1,241,855	36.60%
	District Total:	3,392,640	100.00%

(1) Consumption is calculated in Billing Units (B.U.). 1 Billing Unit = 100 Cubic Feet = 748 gallons.
Source: Moulton Niguel Water District

Billing and Collection Procedures

The District combines water and sewer charges on a monthly bill for residential customers. Reclaimed water and construction water are also billed on a monthly basis. Bills are due upon receipt. A delinquent message is included on the following month's bill if the previous balance is unpaid. Approximately 1.7% of the District customers receive the delinquent message due to unpaid balances. If bills are not paid within 15 days of the second billing, the customer will receive a mailed final notice invoicing the past due amount before water service is discontinued. If service is disconnected it will be reconnected upon payment of the delinquent bill as well as a reconnection fee of \$35 or \$50 if the reconnection is after 5:00 p.m.

Closed accounts are given 28 days to pay in full. If a closed account remains unpaid a delinquent closing bill is mailed. Sixty days from the original closing bill date a closed account may be transferred into the collection process. The District's actual uncollectibles have amounted to less than 1%, or approximately \$60,000 per year over the last five years.

Table 13
MOULTON NIGUEL WATER DISTRICT
Historical Billings, Collections and Delinquencies
Fiscal Years 2003-04 through 2013-14

<u>Fiscal Year Ended June 30</u>	<u>Balance Beginning FY</u>	<u>Billings</u>	<u>Payments</u>	<u>Balance Ending FY</u>	<u>Write-off</u>	<u>% of Billing</u>
2004	\$2,686,121	\$28,999,532	\$28,812,106	\$2,873,547	\$25,112	0.09%
2005	2,873,547	27,669,078	27,691,955	2,850,670	33,721	0.12
2006	2,850,670	31,842,768	31,285,539	3,407,899	22,364	0.07
2007	3,407,899	37,288,053	36,585,907	4,110,045	22,209	0.06
2008	4,110,045	36,200,266	36,697,046	3,613,265	27,189	0.08
2009	3,613,265	35,213,638	35,775,830	3,051,073	29,480	0.08
2010	3,051,073	37,584,780	37,232,581	3,403,272	45,825	0.12
2011	3,403,272	41,104,192	39,862,841	4,644,623	52,657	0.13
2012	4,644,623	49,766,022	49,423,883	4,986,762	61,286	0.12
2013	4,986,762	51,704,350	50,776,003	5,915,109	60,822	0.12
2014	5,915,109	52,795,710	53,606,871	5,103,949	85,183	0.16

Source: Moulton Niguel Water District

Regulatory Issues

General. The District is not aware of any environmental or regulatory issues that would adversely impact its ability to deliver water.

Drinking Water. The applicable drinking water standards for the District's potable water system are provided in the California Domestic Water Quality and Monitoring Regulations, Title 22 of the California Administrative Code. These regulations incorporate the requirements of the U.S. Environmental Protection Agency in conformance with the Safe Drinking Water Act (PL 93-523). The standards specify water quality sampling frequencies and location as well as maximum concentrations of chemical constituents and are continuously revised and amended.

The District operates under a Water Supply Permit issued by the State of California, Department of Health Services.

Recycled Water. The District's recycled water operations are subject to regulation under Section 402 of the federal Clean Water Act, implementing regulations adopted by the United States Environmental Protection Act, the California Water Code and regulations promulgated by the California Department of Health Services. On February 3, 2009, the State Water Resources Control Board ("**SWRCB**") adopted a statewide Recycled Water Policy to support increased sustainable local water supplies by increased production and use of recycled water. The policy also outlines recycled water quality control measures, which, among other requirements, mandates the implementation of regional salt nutrient management plans by 2014, as well as the regular monitoring of certain constituents in recycled water.

Specifically, the District operates pursuant to "Waste Discharge and Water Recycling Requirements for the Production and Purveyance of Recycled Water by Member Agencies of the South Orange County Reclamation Orange Authority, Orange County," imposed by Order No. 97-52 of the California Regional Water Quality Control Board, San Diego Region (Region 9) (as

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addended). The Order establishes waste discharge and water recycling requirements applicable to the District as a member agency of the South Orange County Wastewater Authority (“SOCWA”), which is the successor entity to the South Orange County Reclamation Authority. Order No. 97-52 establishes requirements for the production and use of recycled water produced by the advanced wastewater treatment facilities owned by the District at the SOCWA Joint Regional Plant and the 3A Plant, and operated on behalf of the District by SOCWA. Order No. 97-52 has no express expiration date, although the general policy of Region 9 for recycled water orders is approximately 15-year renewals. In light of the new 2009 SWRCB Recycled Water Policy requirements, it may be longer before Region 9 requires revisions to the Order

Sewer System. Regulatory requirements applicable to the Sewer System are contained in or imposed by regulation pursuant to the Federal Water Pollution Control Act, as amended, and the State of California Porter Cologne Water Quality Control Act of 1969, as amended. Both federal and State regulations are administered through the Regional Water Board. The District is not aware of any environmental or regulatory issues that would adversely impact its ability to provide sewer service.

The waste discharge requirements applicable to the Sewer System are a product of the following:

(i) Waste discharge requirements described above in “Recycled Water.”

(ii) “Waste Discharge Requirements for the South Orange County Wastewater Authority - Discharge to the Pacific Ocean Via the San Juan Creek Ocean Outfall,” imposed by Order No. R9-2012-0012/NPDES No. CA0107417 of the California Regional Water Quality Control Board, San Diego Region (Order 2012-0012). (Order 2012-0012) governs discharge of municipal wastewater treatment plant effluent, waste brine and dry weather nuisance discharges by SOCWA from the San Juan Creek Ocean Outfall. The Order expires on May 31, 2017. The District is a member of SOCWA. The San Juan Creek Ocean Outfall receives treated effluent from the District’s 3A Treatment Plant. The 3A Treatment Plant is a conventional activated sludge treatment facility. Secondary effluent is directed to an on-site advanced water reclamation facility for further treatment or is discharged through the San Juan Creek Ocean Outfall via the 3A Effluent Pipeline, which is jointly owned by the District and the Santa Margarita Water District, which connects to the Santa Margarita Water District’s Chiquita Land Outfall. The design capacity for treatment is 6.0 MGD. The San Juan Creek Ocean Outfall also receives treated effluent from SOCWA’s Jay B. Latham Plant in Dana Point, which treats raw wastewater generated in the District’s and other SOCWA member agencies’ service areas that overlie the San Juan Creek watershed. An average of 9.9 MGD of secondary treated wastewater from the Jay B. Latham Plant is discharged to the San Juan Creek Ocean Outfall.

(iii) “Waste Discharge Requirements for the South Orange County Wastewater Authority - Discharge to the Pacific Ocean Via the Aliso Creek Ocean Outfall,” imposed by Order No. R9-2012-0013/NPDES No. CA0107611 of the California Regional Water Quality Control Board, San Diego Region (Order 2012-0013). (Order 2012-0013) governs discharge of treated municipal wastewater, treated groundwater and waste brine by the SOCWA from the Aliso Creek Ocean Outfall. The Order expires on May 31, 2017. The District is a member of SOCWA. The Aliso Creek Ocean Outfall receives treated effluent from the SOCWA Joint Regional Treatment Plant (“JRTP”), which is owned by SOCWA and treats raw wastewater generated in the District’s service area. A portion of the secondary effluent is reclaimed for irrigation through the District’s recycled water facilities

at the JRTP. The treatment capacity of the JRTP is 11.4 MGD. An average of 6.17 MGD of secondary treated wastewater is discharged to the Aliso Creek Ocean Outfall.

Air Emissions Permits. The District operates pursuant to a variety of permits from the South Coast Air Quality Management District.

Capital Improvement Program

Capital Improvements. The District's anticipated capital expenditures and the projected sources of payment are reflected in "HISTORICAL AND PROJECTED DEBT SERVICE COVERAGE – Five-Year Cash Flow Forecast" below.

Replacement and Refurbishment. The District has a Replacement and Refurbishment planning model (also referred to as the District's Asset Management Plan) for the District's facilities and equipment. The purpose of the Asset Management Plan is to: (1) inventory and account for all of the District's assets; (2) measure the true cost of asset ownership; (3) plan for the systematic replacement or refurbishment of District assets; and (4) develop meaningful financial planning for targeted investment decisions and better risk management.

The Asset Management Plan calculates the replacement and refurbishment costs and expenditure schedule based on the assumption that expenditures take place during the year indicated by the end of the useful lives of the assets. The expenditure may be incurred over two or three years, or replacement of an asset may be expedited or delayed, depending on need, funding availability, and staff time. To take this into account, the expenditures are "smoothed" using a five-year, center-weighted moving average technique. These "smoothed" expenditures are used to calculate the funding needs for the replacement and refurbishment of the District's assets. SOCWA expenditures for replacement and refurbishment comprise a significant portion of the District's replacement and refurbishment expenditures. However, District staff has considerable input on SOCWA's expenditures, as a result of its participation on the SOCWA Engineering Committee.

Replacement and Refurbishment expenditures will be funded from the Replacement and Refurbishment Fund, which was established July 1, 2005 with an initial balance of \$20,610,032. As of February 28, 2015, the balance in the Replacement and Refurbishment Fund was \$17,319,764.

The District's anticipated Replacement and Refurbishment expenses and the projected sources of payment are reflected in "HISTORICAL AND PROJECTED DEBT SERVICE COVERAGE – Five-Year Cash Flow Forecast" below.

TAX REVENUES

The following section summarizes the Tax Revenues, which, along with Net Revenues, serve as the initial security for the Bonds under the Indenture. Some of the provisions in the Indenture described below will automatically be amended as described in "SECURITY FOR THE BONDS – Automatic Amendments." The District believes these amendments will not have any material impact on the owners of the Bonds and are primarily non-substantive.

Definition of Tax Revenues

The Indenture defines "**Tax Revenues**" as the amount of property tax revenues (as defined in Section 95 of the Revenue and Taxation Code of the State of California) apportioned, allocated and paid by the Orange County Tax Collector to District with respect to each Fiscal Year, commencing with the 2003-04 Fiscal Year, pursuant to Section 75.70 and Chapter 6 (commencing with Section 95) of Part 0.5 of Division 1 of the Revenue and Taxation Code of the State of California, as amended from time to time.

See "RISK FACTORS – Property Taxes" for a discussion of certain factors that could impact the availability of Tax Revenues.

Property Tax Limitations; Article XIII A of the California Constitution

California voters, on June 6, 1978, approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things, affects the valuation of real property for the purpose of taxation in that it defines the full cash value of property to mean "the county assessor's valuation of real property as shown on the 1975/76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or any reduction in the consumer price index or comparable local data, or any reduction in the event of declining property value caused by damage, destruction or other factors. The amendment further limits the amount of any ad valorem tax on real property to 1% of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978. In addition, an amendment to Article XIII A was adopted in June 1986 by initiative which exempts any bonded indebtedness approved by two-thirds of the votes cast by voters for the acquisition or improvement of real property from the 1% limitation.

In the general election held November 4, 1986, voters of the State of California approved two measures, Propositions 58 and 60, which further amend Article XIII A. Proposition 58 amends Article XIII A to provide that the terms "purchased" and "change of ownership," for purposes of determining full cash value of property under Article XIII A, do not include the purchase or transfer of (1) real property between spouses and (2) the principal residence and the first \$1,000,000 of other property between parents and children.

Proposition 60 amends Article XIII A to permit the Legislature to allow persons over age 55 who sell their residence to buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence. Pursuant to Proposition 60, the Legislature has enacted legislation permitting counties to implement the provisions of Proposition 60.

Implementing Legislation

Legislation enacted by the California Legislature to implement Article XIII A (Statutes of 1978, Chapter 292, as amended) provides that, notwithstanding any other law, local agencies may not levy any property tax, except to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and that each county will levy the maximum tax permitted by Article XIII A of \$4.00 per \$100 assessed valuation (based on the traditional practice in California of using 25% of full cash value as the assessed value for tax purposes). The legislation further provided that, for fiscal year 1978-79, the tax levied by each county was to be appropriated among all taxing agencies within the county in proportion to their average share of taxes levied in certain previous years.

The apportionment of property taxes in fiscal years after fiscal year 1978-79 has been revised pursuant to Statutes of 1979, Chapter 282 which provides relief funds from State moneys beginning in fiscal year 1978-79 and is designed to provide a permanent system for sharing State taxes and budget surplus funds with local agencies. Under Chapter 282, cities and counties receive about one-third more of the remaining property tax revenues collected under Proposition 13 instead of direct State aid. School districts receive a correspondingly reduced amount of property taxes, but receive compensation directly from the State and are given additional relief. Chapter 282 does not affect the derivation of the base levy (\$4.00 per \$100 assessed valuation) and the bonded debt tax rate.

Effective as of fiscal year 1981-82, assessors in California no longer record property values in the tax rolls at the assessed value of 25% of market values. All taxable property is shown at full market value (subject to a 2% annual limit in growth so long as property is not sold). In conformity with this change in procedure, all taxable property value included in this Official Statement is shown at 100% of market value and all general tax rates reflect the \$1 per \$100 of taxable value. Tax rates for bond service and pension liability are also applied to 100% of market value.

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, annual inflationary value growth of up to 2%) is allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs except for certain utility property assessed by the State Board of Equalization ("**Unitary Property**") which is allocated by a different method as described under "--Unitary Property" below.

Property Tax Collection Procedures

Classifications. In California, property which is subject to *ad valorem* taxes is classified as "secured" or "unsecured." Secured and unsecured properties are entered on separate parts of the assessment roll maintained by the county assessor.

The secured classification includes property on which any property tax levied by the County becomes a lien on that property sufficient, in the opinion of the county assessor, to secure payment of the taxes. Every tax which becomes a lien on secured property has priority over all other liens on the secured property, regardless of the time of the creation of other liens. A tax levied on unsecured property does not become a lien against the taxes on unsecured property, but may become a lien on certain other property owned by the taxpayer.

Collections. The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has four ways of collecting unsecured

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property taxes in the absence of timely payment by the taxpayer: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts an order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of the personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes with respect to property on the secured roll is the sale of property securing the taxes to the State for the amount of taxes which are delinquent. A 10% penalty also applies to delinquent taxes on property on the unsecured roll, and further, an additional penalty of 1 ½% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date.

The valuation of property is determined as of January 1 each year and equal installments of taxes levied upon secured property become delinquent on the following December 10 and April 10. Taxes on unsecured property are due August 1 and become delinquent August 31.

Supplemental Assessments. A bill enacted in 1983, SB 813 (Statutes of 1983, Chapter 498) provides for the supplemental assessment and taxation of property as of the occurrence of a change in ownership or completion of new construction. Previously, statutes enabled the assessment of such changes only as of the next tax lien date following the change and thus delayed the realization of increased property taxes from the new assessments for up to 14 months. As enacted, Chapter 498 provided increased revenue to redevelopment agencies to the extent that supplemental assessments as a result of new construction or changes of ownership occur within the boundaries of redevelopment projects subsequent to the tax lien date. To the extent such supplemental assessments occur within the Project Area, Tax Revenue may increase.

Property Tax Administration Costs. In 1990, the Legislature enacted SB 2557 (Chapter 466, Statutes of 1990) which allows counties to charge for the cost of assessing, collecting and allocating property tax revenues to local government jurisdictions on a prorated basis.

Unitary Property

Commencing in fiscal year 1988-89, the Revenue and Taxation Code of the State of California changed the method of allocating property tax revenues derived from state assessed utility properties. It provides for the distribution of state assessed values to tax rate areas by a county-wide mathematical formula rather than assignment of state assessed value according to the location of those values in individual tax rate areas.

Commencing with fiscal year 1988-89, each county has established one county-wide tax rate area. The assessed value of all unitary property in the county has been assigned to this tax rate area and one tax rate is levied against all such property ("**Unitary Revenues**").

The property tax revenue derived from the assessed value assigned to the county-wide tax rate area shall be allocated as follows: (1) each jurisdiction will be allocated up to 2% of the increase in Unitary Revenues on a pro rata basis county-wide; and (2) any decrease in Unitary Revenues or increases less than 2%, or any increase in Unitary Revenues above 2% will be allocated among jurisdictions in the same proportion of each jurisdiction's Unitary Revenues received in the prior year to the total Unitary Revenues county-wide.

However, legislation adopted in 2006 (SB 1317, Chapter 872) and taking effect with fiscal year 2007-08 required counties to transfer certain railroad properties into a countywide tax rate area from their existing tax rate area. Taxes on these properties are now distributed in a manner similar to other unitary properties, except that redevelopment agencies no longer share in the distribution.

Assessment Appeals

An assessee of locally assessed or state-assessed property may contest the taxable value enrolled by the county assessor or by the State Board of Equalization (“**SBE**”), respectively. The assessee of SBE-assessed property or locally-assessed personal property, the valuation of which is subject to annual reappraisal, actually contests the determination of the full cash value of property when filing an assessment appeal. Because of the limitations to the determination of the full cash value of locally assessed real property by Article XIII A, an assessee of locally assessed real property generally contests the original determination of the base assessment value of the parcel, i.e. the value assigned after a change of ownership or completion of new construction. In addition, the assessee of locally assessed real property may contest the current assessment value (the base assessment value plus the compounded annual inflation factor) when specified conditions have caused the full cash value to drop below the current assessment value.

At the time of reassessment, after a change of ownership or completion of new construction, the assessee may appeal the base assessment value of the property. Under an appeal of a base assessment value, the assessee appeals the actual underlying market value of the sale transaction or the recently completed improvement. A base assessment appeal has significant future revenue impact because a reduced base year assessment will then reduce the compounded value of the property prospectively. Except for the 2% inflation factor allowable under Article XIII A, the value of the property cannot be increased until a change of ownership occurs or additional improvements are added.

Under Section 51(b) of the Revenue and Taxation Code, the assessor may place a value on the tax roll lower than the compounded base assessment value if the full cash value of real property has been reduced by damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in the value. Reductions in value under Section 51(b), commonly referred to as Proposition 8 reductions, can be achieved either by formal appeal or administratively by assessor staff appraising the property. A reduced full cash value placed on the tax roll does not change the base assessment value. The future impact of a parcel subject to a Proposition 8 appeal is dependent upon a change in the conditions which caused the drop in value. In fiscal years following a successful Proposition 8 appeal, the assessor may determine that the value of the property has increased as a result of corrective actions or improved market conditions and enroll a value on the tax roll up to the parcel’s compounded base assessment value. Additionally, successful appeals regarding property on the unsecured rolls does not necessarily affect the valuation of such property in any succeeding fiscal year.

Utility companies and railroads may contest the taxable value of utility property to the SBE. Generally, the impact of utility appeals is on the State-wide value of a utility determined by SBE.

The actual valuation impact to the District from successful assessment appeals will occur on the assessment roll prepared after the actual valuation reduction.

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Historical Assessed Values

Set forth in the following table is a summary of historical assessed values in the District for fiscal years 2009-10 through 2013-14.

Table 14
MOULTON NIGUEL WATER DISTRICT
Historical Assessed Values

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2009-10	\$14,664,154,037	\$0	\$27,106,855	\$14,691,260,892
2010-11	14,545,544,615	0	32,417,303	14,577,961,918
2011-12	14,603,175,137	0	21,279,567	14,624,454,704
2012-13	14,713,529,838	0	24,601,899	14,738,131,737
2013-14	15,207,126,439	0	27,748,320	15,234,874,759

Source: California Municipal Statistics, Inc.

Set forth in the following table is a break-down of fiscal year 2013-14 secured assessed value based on land use.

Table 15
MOULTON NIGUEL WATER DISTRICT
Historical Secured Assessed Values by Land Use
Fiscal Year 2013-14

<u>Land Use</u>	<u>Secured</u> <u>Assessed Value</u>
Residential	\$13,447,468,112
Commercial	1,392,608,779
Industrial	344,720,766
Vacant/Other	<u>22,328,782</u>
Total	\$15,207,126,439

Source: Moulton Niguel Water District

Principal Taxpayers

The following table sets forth the ten principal local secured taxpayers within the District for fiscal year 2014-15, based on the most recent data received from the County.

**Table 16
MOULTON NIGUEL WATER DISTRICT
10 Largest Fiscal Year 2014-15 Local Secured Taxpayers**

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>Fiscal Year 2014-15 Assessed Valuation</u>	<u>% of Total</u>
OC/SD Holdings LLC	Apartments	\$64,102,796	0.42%
BRE-FMCA LLC	Apartments	45,166,362	0.30
Moritz Associates LLC	Apartments	44,408,101	0.29
Shea Homes	Residential	39,226,509	0.26
Barcelona, LLC	Apartments	38,373,258	0.25
Laguna Cabot Road Business Park LP	Industrial	37,788,612	0.25
Sequoia Equities – Alicante	Apartments	35,207,357	0.23
Sequoia Equities – Alize	Apartments	33,670,515	0.22
Costco Wholesale Corp.	Commercial	26,807,873	0.18
Target Corporation	Commercial	<u>26,609,930</u>	<u>0.17</u>
		\$391,361,313	2.57%

Source: Moulton Niguel Water District.

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Rate of Collections

The following table details the property tax delinquency rate in the District as of June 30 of the listed fiscal years.

Table 17
MOULTON NIGUEL
Historical Property Tax Levies and Collections
Fiscal Years 2003-04 through 2013-14

<u>Fiscal Year</u>	<u>Total Levy</u>	<u>Current Year Collections</u>	<u>Delinquencies Collected in Current Year</u>	<u>Delinquency Rate</u>
2003-04	\$16,267,199	\$16,096,282	\$197,152	1.05%
2004-05 ⁽¹⁾	12,146,835	11,953,584	188,635	1.59
2005-06 ⁽¹⁾	13,805,452	13,435,730	271,293	2.68
2006-07	21,254,653	20,560,187	425,393	3.27
2007-08	22,283,832	21,583,776	587,508	3.14
2008-09	22,245,697	21,285,866	721,593	4.31
2009-10	21,679,649	20,656,502	968,078	4.62
2010-11	21,638,200	20,835,460	511,337	3.71
2011-12	22,143,993	20,666,470	475,230	6.57
2012-13	22,511,515	21,304,598	555,032	5.36
2013-14	22,890,247	22,311,794	211,474	2.53

(1) The District's Tax Revenues declined in fiscal years 2004-05 and 2005-06 because the District was obligated to transfer a portion of its tax revenues to the State's Education Revenue Augmentation Fund.

Source: Moulton Niguel Water District.

Although the Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "**Teeter Plan**"), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code, the District does not participate. Consequently, the District receives Tax Revenues based on actual collections and any penalties and interest due as a result of delinquencies.

HISTORICAL AND PROJECTED DEBT SERVICE COVERAGE

Historical Debt Service Coverage

The following table presents historical debt service coverage.

Table 18
MOULTON NIGUEL WATER DISTRICT
Historical Debt Service Coverage
Fiscal Years Ended June 30, 2010 through June 30, 2014

	Fiscal Year <u>2009-10</u>	Fiscal Year <u>2010-11</u>	Fiscal Year <u>2011-12</u>	Fiscal Year <u>2012-13</u>	Fiscal Year <u>2013-14</u>
REVENUES					
Operating Revenues	\$20,578,666	22,520,065	\$28,866,153	\$30,633,036	\$30,503,803
Water - Potable	4,446,515	4,340,197	4,530,175	4,612,874	5,005,391
Meter Sales & Other	12,542,595	14,448,835	16,826,066	16,941,327	17,135,446
Sanitation Charges	572,611	444,346	429,064	1,035,873	562,871
Total Operating Revenues	<u>\$38,140,387</u>	<u>\$41,753,443</u>	<u>\$50,651,458</u>	<u>\$53,223,110</u>	<u>\$53,207,511</u>
Non-Operating Revenues					
Connection fees	\$15,723	\$182,491	--	\$83,038	\$489,346
Other income	2,935,969	2,978,950	\$3,119,814	3,164,770	3,056,462
Total Non-Operating Revenues	<u>2,951,692</u>	<u>3,161,441</u>	<u>3,119,814</u>	<u>3,247,808</u>	<u>3,545,808</u>
Investment income	6,379,496	3,414,584	5,765,176	(799,897)	2,749,964
Total Revenues	<u>\$47,471,575</u>	<u>\$48,359,468</u>	<u>\$59,536,448</u>	<u>\$55,671,021</u>	<u>\$59,503,283</u>
MAINTENANCE AND OPERATION EXPENSES					
Source of Supply	22,505,838	22,088,538	24,404,678	28,049,259	29,770,326
Pumping Water	349,221	419,533	444,278	2,135,266	2,100,550
Sewage Treatment	9,093,471	8,588,172	9,219,956	9,841,299	9,647,000
Water Transmission & Distribution	4,267,727	3,752,224	4,186,565	2,299,355	2,138,767
Customer Service	332,685	311,483	300,176	2,711,672	2,750,999
Water Efficiency	--	--	--	1,446,173	1,448,498
General, Administrative & Other	12,788,639	13,130,167	14,822,988	12,099,457	12,744,511
Total Maintenance and Operating Expenses	<u>\$49,337,581</u>	<u>\$48,290,117</u>	<u>\$53,379,641</u>	<u>\$58,582,481</u>	<u>\$60,600,651</u>
Net Revenues	\$(1,866,006)	\$39,351	\$6,146,807	\$(2,911,460)	\$(1,097,368)
Tax Revenues	21,624,580	21,346,797	21,141,700	21,859,630	22,523,268
Sum of Net Revenues and Tax Revenues	<u>\$19,758,574</u>	<u>\$21,386,148</u>	<u>\$27,298,507</u>	<u>\$18,948,170</u>	<u>\$21,425,900</u>
Debt Service (Excluding General Obligation Bonds)					
Parity Obligations	\$3,836,097	\$6,580,380	\$7,051,030	\$7,092,300	\$7,084,900
Government Loans	2,309,013	2,309,013	2,309,013	2,309,031	2,309,013
Total Existing Parity Obligations	6,145,110	8,889,393	9,360,313	9,401,313	9,393,913
Debt Service Coverage Ratio	3.22	2.41	2.92	2.02	2.28

Source: Moulton Niguel Water District.

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Projected Debt Service Coverage

The following table shows the calculation of the debt service coverage ratios estimated for fiscal years 2014-15 through 2018-19. The debt service coverage ratio is calculated by dividing annual Tax Revenues and Net Revenues by annual debt service for Prior Parity Obligations, Prior Governmental Loans and the Bonds. The following table incorporates the estimates and projections for Tax Revenues and Net Revenues shown in the previous table.

Net Revenues are Revenues less Maintenance and Operation Expenses. Revenues include (1) Operating Revenues generated from potable water, recycled water, and sewer services; (2) Non-Operating Revenues, including rents, insurance and condemnation proceeds and other income; and (3) income earned on investments. Maintenance and Operation Expenses include the expenses to maintain, operate, repair, and manage the utility systems. Capital project expenditures, debt service, and depreciation are excluded from Maintenance and Operation Expenses for the purpose of the debt service coverage calculation.

Table 19
MOULTON NIGUEL WATER DISTRICT
Projected Debt Service Coverage
Fiscal Years Ended June 30, 2015 through June 30, 2019

	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18	Fiscal Year 2018-19
REVENUES					
Operating Revenues					
Water Charges	\$26,590	\$28,527	\$29,978	\$31,219	\$32,374
Sanitation Charges	17,117	19,113	20,540	21,584	22,566
Recycled Charges	4,775	5,123	5,383	\$,606	5,814
Other Income	4,034	600	497	497	497
Total Operating Revenues	\$52,517	\$53,363	\$56,398	\$58,906	\$61,251
Non-Operating Revenues					
Tax Revenues	\$23,125	\$23,587	\$24,059	\$24,540	\$25,031
Connection Fees	617	1,238	179	179	179
Investment Income	1,967	1,868	2,374	2,477	2,440
Other Income	4,071	3,051	2,962	2,941	2,872
Total Non-Operating Revenues	29,780	29,744	29,575	30,137	30,522
Total Revenues	\$82,296	\$83,108	\$85,972	\$89,043	\$91,773
MAINTENANCE AND OPERATING EXPENSES					
Water Purchases	\$28,514	\$28,791	\$28,895	\$29,796	\$30,810
MNWD Other O&M	11,696	11,010	11,287	11,572	11,864
Salaries	9,565	10,192	10,651	10,917	11,190
Benefits	4,107	4,323	4,554	4,635	4,718
SOCWA	8,451	8,630	8,783	8,940	9,100
JWRSS	1,050	1,254	1,296	1,343	1,391
Total Maintenance and Operating Expenses	\$63,383	\$64,200	\$65,466	\$67,204	\$69,074
Net Revenue	\$18,913	\$18,908	\$20,507	\$21,839	\$22,699
Debt Service (Excluding General Obligation Bonds)					
Parity Obligations					
CIEDB 01	\$118	\$118	\$118	\$117	\$117
CIEDB 02	80	80	80	80	80
2010 COPs	1,972	1,967	1,969	1,964	--
2009 COPs	4,099	4,099	4,099	4,099	4,099
2003 COPs	726	--	--	--	--
2014 Revenue Bonds	--	576	612	611	2,377
Prior Government Loans					
DWR Loan	308	154	--	--	--
SRF Loan C-06-4150-110	497	497	497	497	--
SRF C-06-4150-120	1,185	1,185	1,185	1,185	1,185
SRF C-06-4150-130	319	\$19	319	319	319
Total Debt Service	\$9,304	\$8,996	\$8,879	\$8,872	8,177
Debt Service Coverage Ratio	2.03	2.10	2.31	2.46	2.78

Source: Moulton Niguel Water District.

RISK FACTORS

The following information should be considered by prospective investors in evaluating the Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to investing in the Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

The purchase of the Bonds involves investment risk. If a risk factor materializes to a sufficient degree, it could delay or prevent payment of principal of and interest on the Bonds. Such risk factors include, but are not limited to, the following matters and should be considered, along with other information in this Official Statement, by potential investors.

Demand and Usage

There can be no assurance that the local demand for services provided by the Systems will continue according to historical levels. In addition, drought conditions and voluntary or mandatory conservation measures could decrease usage of the services of the Systems. However, the revised rate structure of the District ensures stability of District finances.

Expenses

There can be no assurance that the District's Maintenance and Operation Expenses and capital expenses, including those payment obligations arising as a result of the District's participation in joint powers authorities or its shared ownership or capacity rights in facilities owned by other local agencies, will be consistent with the levels described in this Official Statement. Changes in technology, increases in the cost of energy or other expenses and increased regulatory requirements would reduce Net Revenues, and could require substantial increases in rates or charges in order to comply with the rate covenant. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand.

Property Taxes

The amount of Tax Revenues is dependent upon assessed values and property tax collections in the District. Decreases in assessed values (whether as a result of assessment appeals or otherwise) and increased property tax delinquencies will result in reduced Tax Revenues.

Proposition 1A; Proposition 22

Proposition 1A. Proposition 1A, proposed by the Legislature in connection with the State's fiscal year 2004-05 Budget, approved by the voters in November 2004 and generally effective in fiscal year 2006-07, provided that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibited the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county had to be approved by two-thirds of both houses of the Legislature.

Proposition 1A provided, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaimed that the shift is needed due to a severe state financial hardship, the shift was approved by two-thirds of both houses and certain other conditions were met. The State could also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Proposition 22. Proposition 22, entitled “The Local Taxpayer, Public Safety and Transportation Protection Act,” was approved by the voters of the State in November 2010. Proposition 22 eliminates or reduces the State’s authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues.

The District can provide no assurances that future action of the Legislature or the voters will not reduce or eliminate the amount of Tax Revenues available to the District.

Parity Obligations; Governmental Loans

Although the District has covenanted not to issue additional obligations payable from Tax Revenues and Net Revenues that are senior to the Bonds, the Indenture permits the issuance by the District of certain indebtedness which may have a lien upon the Tax Revenues and the Net Revenues which is on a parity basis to the lien which secures the Bonds and the Prior Parity Obligations (see “SECURITY FOR THE BONDS – Prior Parity Obligations; Limitations on Parity Obligations and Superior Obligations” in this Official Statement). The District is also authorized to incur Additional Governmental Loans, which would be payable from Governmental Loans Pledged Revenues on a parity with the Bonds and the Prior Parity Obligations. See “SECURITY FOR THE CERTIFICATES - Prior Governmental Loans; Limitations on Additional Government Loans.”

These coverage tests involve, to some extent, projections of Net Revenues. If such indebtedness is issued, the debt service coverage for the Bonds will be diluted below what it otherwise would be subject to under the coverage tests. Moreover, there is no assurance that the assumptions that form the basis of such projections, if any, will be actually realized subsequent to the date of such projections. If such assumptions are not realized, the amount of future Net Revenues may be less than projected, and the actual amount of Net Revenues may be insufficient to provide for the payment of the debt service on the Bonds and such additional indebtedness.

Threat to Water Supply

California is in the midst of one of the worst droughts in its recorded history. The District primarily receives its water from MWD, which purchases most of its water from MWD.

MWD’s principal sources of water are the State Water Project and the Colorado River, both of which are subject to drought conditions that have recently contributed to lower overall water deliveries to MWD. The current drought conditions and court-ordered restrictions, including but not limited to restrictions under the Federal and California Endangered Species Acts, have placed additional limitations on MWD’s ability to acquire and transport water supplies to its member agencies. Effective July 1, 2015, MWD will allocate available supplies among its member

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agencies pursuant to a Water Supply Allocation Plan, and may be unable to provide all water deliveries requested by its member agencies. A reduction in water deliveries to its member agencies might adversely affect MWD's net operating revenues, which could lead to an increase in MWD's rates and charges. The MWD Official Statement described in the section of this Official Statement entitled "METROPOLITAN'S WATER SUPPLY" includes a discussion of MWD's water sources and the impact of drought conditions and environmental restrictions.

As of March 17, 2015, all of Orange County is in a state of exceptional drought according to the U.S. Drought Monitor.

Natural Disasters

The District, like all southern California communities, is likely to be subject to unpredictable seismic activity, fires or floods. If there were a severe seismic, flood or fire event in the District, there could be substantial damage to and interference with the District, including the Systems, which could affect the District's ability to pay debt service on the Bonds.

Potential Impact of Climate Change

The issue of climate change has become an important factor in water resources planning in the State. There is evidence that increasing concentrations of greenhouse gases have caused and will continue to cause a rise in temperatures around the world, which will result in a wide range of changes in climate patterns. Moreover, there is evidence that a warming trend occurred during the latter part of the 20th century and will likely continue through the 21st century. These changes will have a direct effect on water resources in the State, and numerous studies on climate and water in the State have been conducted to determine the potential impacts. Based on these studies, global warming could result in the following types of water resources impacts in the State, including impacts on the District:

- Changes in the timing, intensity, and variability of precipitation, and an increased amount of precipitation falling as rain instead of as snow,
- Long-term changes in watershed vegetation and increased incidence of wildfires that could affect water quality,
- Sea level rise and an increase in saltwater intrusion,
- Increased water temperatures with accompanying adverse effects on some fisheries,
- Increases in evaporation and concomitant increased irrigation need, and
- Changes in urban and agricultural water demand.

However, other than the general trends listed above, there is no clear scientific consensus on exactly how global warming will quantitatively affect State water supplies.

Insurance

The Indenture obligates the District to obtain and keep in force various forms of insurance or self-insurance, subject to deductibles, for repair or replacement of a portion of the Water

System in the event of damage or destruction to such portion of the Water System. No assurance can be given as to the adequacy of any such self-insurance or any additional insurance to fund necessary repair or replacement of any other portion of the Water System. Significant damage to the Water System could cause the District to be unable to generate sufficient Net Revenues to pay principal of and interest on the Bonds.

See "APPENDIX A - AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR ENDED JUNE 30, 2014, NOTES TO BASIC FINANCIAL STATEMENTS, Note 10, Risk Management" for further information.

Copper Pipe Litigation

There have been several complaints by homeowners, associations and homebuilders against the District, other water districts, and in some cases against the MWD, alleging that the District's water supply, imported from the MWD, and related treatment process led to pinhole leaks in the pipes of homeowners, with resulting property damage. These cases have been consolidated with a case filed against Irvine Ranch Water District by a single homeowner, and a legal issues trial is currently scheduled for June 8, 2015. There are also plumbing contractors named as defendants or cross defendants. The JPIA is involved, and is providing the District's defense.

The water districts' position is, generally, that the potable water meets all federal and state water quality laws and regulations and related supply permits, and are therefore preempted, and the districts are immune from the damages claims, so that the claims should fail as a matter of law.

The District has received and rejected other administrative claims from individual homeowners and homeowners insurance companies in relatively small amounts, none of which have been pursued in filed litigation to date.

Articles XIII C and XIII D of the California Constitution

General. On November 5, 1996, California voters approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related "fee" or "charge," which is defined as "any levy other than an ad valorem tax, a special tax or an assessment, imposed by a (local government) upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service" (and referred to in this section as a "property-related fee or charge").

On November 2, 2010, California voters approved Proposition 26, the so-called "Supermajority Vote to Pass New Taxes and Fees Act". Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as "fees." Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. Proposition 26's amendments to Article XIII C broadly define "tax," but specifically exclude, among other things:

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“(1) A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.

(2) A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.

...

(6) A charge imposed as a condition of property development.

(7) Assessments and property-related fees imposed in accordance with the provisions of Article XIII D.”

Property-Related Fees and Charges. Under Article XIID, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

Further, under Article XIID, revenues derived from a property-related fee or charge may not exceed the funds required to provide the “property-related service” and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

Initiative Power. In addition, Article XIIC states that “the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to statewide statutory initiatives.”

Judicial Interpretation of Article XIID. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIID regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three recent cases have held that certain types of water and wastewater charges could be subject to the requirements of Article XIID under certain circumstances.

In *Richmond v. Shasta Community Services District* (9 Cal. Rptr. 3rd 121), the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIID to certain charges related to water service. In *Richmond*, the Court held that connection charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (March 23, 2005), the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218 and a municipality must comply with Article XIID before imposing or increasing such fees. The California Supreme Court denied the City of Fresno's petition for review of the Court of Appeal's decision on June 15, 2005.

In July 2006 the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (S127535, July 24, 2006), addressed the validity of a local voter initiative measure that would have (a) reduced a water agency's rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency's charges for ongoing water delivery are "fees and charges" within the meaning of Article XIID, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Article XIIC's mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water delivery charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIIC and was therefore invalid.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was *not* determining whether the electorate's initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

Compliance by the District with Article XIIC and Article XIID. The District believes its water and sewer service charges do not constitute a "tax" under Article XIIC. The District believes its connection fee is not a "tax" as defined by Proposition 26 because it is a charge to a landowner that is imposed (typically as a condition of property development) for a specific privilege and does not exceed the reasonable costs of conferring the privilege.

The District will continue to comply with the provisions of Articles XIIC and XIID and implementing legislation in connection with future rate increases, as such requirements may be interpreted by state courts.

As described in "SECURITY FOR THE BONDS" the District will pay the debt service payments on the Bonds first from Tax Revenues and, second, to the extent that Tax Revenues are not sufficient to pay all required amounts, from Net Revenues. The same is true for the Prior Parity Obligations and certain Prior Governmental Loans. As described above, under Article XIID, revenues derived from a property-related fee or charge may not exceed the funds required to provide the "property-related service" and the District may not use such fee or charge for any purpose other than that for which it imposed the fee or charge.

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Conclusion. It is not possible to predict how courts will further interpret Article XIII C and Article XIII D in future judicial decisions, and what, if any, further implementing legislation will be enacted.

Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals the District's rates and charges, although it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness.

There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIII C and Article XIII D to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for utility service, or to call into question previously adopted utility rate increases.

San Juan Capistrano Litigation. In August 2013, an Orange County Superior Court judge ruled that the tiered pricing model of San Juan Capistrano, which charges higher rates to customers who use more water, violates Proposition 218. The City appealed the decision, to the 4th District Court of Appeal, which published its decision on April 20, 2015. The court's decision found that the City's tiered rates were not sufficiently cost justified, but that the Constitution does allow for tiered rates. The District believes that its rate structure is distinguishable from the structure deemed unconstitutional in San Juan Capistrano and is consistent with Proposition 218 and the Constitution because the District's tiered rates correlate with the actual costs for the various tiers.

Limited Recourse on Default

If the District defaults on its obligation to make debt service payments on the Bonds, the Trustee has the right to accelerate the total unpaid principal amounts of the Bonds. However, in the event of a default and such acceleration there can be no assurance that the District will have sufficient Tax Revenues and Net Revenues to pay the accelerated debt service payments.

Limitations on Remedies Available; Bankruptcy

The enforceability of the rights and remedies of the Owners and the obligations of the District may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; equitable principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercising of powers by the federal or State government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

Limited Obligation

The District's obligation to make debt service payments on the Bonds is a special obligation of the District payable solely from Tax Revenues, Net Revenues and other funds

provided for in the Indenture. The Indenture provides that debt service payments on the Bonds will be paid first from Tax Revenues and then, to the extent Tax Revenues are not sufficient to make the debt service payments, from Net Revenues. Although Tax Revenues are composed of *ad valorem* property taxes allocated to the District, the District has not agreed to levy any form of taxation to pay the debt service on the Bonds.

Loss of Tax-Exemption

As discussed under the caption "TAX MATTERS," interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the District in violation of its covenants in the Indenture. Should such an event of taxability occur, the Bonds are not subject to special redemption and will remain outstanding until maturity or until redeemed under other provisions set forth in the Indenture.

Secondary Market for Bonds

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

No assurance can be given that the market price for the Bonds will not be affected by the introduction or enactment of any future legislation, or changes in interpretation of existing law.

Change in Law

In addition to the other limitations described in this Official Statement, the California electorate or Legislature could adopt a constitutional or legislative property tax decrease or an initiative with the effect of reducing revenues payable to or collected by the District. There is no assurance that the California electorate or Legislature will not at some future time approve additional limitations that could have the effect of reducing the Tax Revenues or the Net Revenues and adversely affecting the security of the Bonds.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and other operating data on an annual basis and to provide notice of listed events as required by Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule"). The specific nature of the information to be contained in the annual report or the notices of listed events is summarized in the form of Continuing Disclosure Certificate set forth as Appendix C. These covenants have been made in order to assist the Purchaser in complying with the Rule.

In the past five years, (i) the District did not file certain information due in its annual reports on a timely basis on ten occasions and failed to include all of the required financial information and operating data in its annual report on two occasions and (ii) failed to file notice of information

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relating to its ratings on seven occasions. The District has made remedial filings to address all material non-compliance in the past five years.

The District believes it has established procedures to ensure that it will comply with all material provisions of its continuing disclosure undertakings in the future.

Any failure by the District to comply with the provisions of its Continuing Disclosure Certificate will not constitute a default under the Indenture (although Bondholders will have any remedy available at law or in equity as provided in the Continuing Disclosure Certificate). Nevertheless, such a failure to comply must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds.

RATINGS

Standard & Poor's Credit Market Services, a division of the McGraw Hill Companies, Inc. ("**S&P**"), has assigned a municipal bond rating of "____" to the Bonds and Fitch Ratings Group ("**Fitch**") has assigned a municipal bond rating of "____" to the Bonds.

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

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 and Fitch (some of which does not appear in this Official Statement).

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

TAX MATTERS

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

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "**Tax Code**") that must be satisfied subsequent to the issuance of the Bonds. 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 a 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.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

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

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.

CERTAIN LEGAL MATTERS

The legal opinion of Bond Counsel, approving the validity of the Bonds, in substantially the form attached hereto as Appendix D, 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. Jones Hall is also acting as Disclosure Counsel to the District. *Payment of the fees and expenses of Bond Counsel and Disclosure Counsel is contingent upon issuance of the Bonds.*

Certain matters will be passed upon for the District by Bowie, Arneson, Wiles & Giannone.

COMPETITIVE SALE OF BONDS

The Bonds were sold pursuant to a competitive bidding process on _____, 2015, pursuant to the terms set forth in an Official Notice of Sale with respect to the Bonds.

The Bonds were awarded to _____ (the "**Purchaser**"), whose proposal represented the lowest true net interest cost for the Bonds as determined in accordance with the Official Notice of Sale. The Purchaser has agreed to purchase the Bonds at a price of \$_____, which is equal to the initial principal amount of the Bonds of \$_____ plus an original issue premium of \$_____, less a Purchaser's discount of \$_____. The Purchaser intends to offer the Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. The Purchaser may offer and sell to certain dealers and others at a price lower than the offering prices stated on the inside cover page hereof. The offering price may be changed from time to time by the Purchaser.

FINANCIAL ADVISOR

The District has retained Public Financial Management, Inc., Los Angeles, California, as its Financial Advisor (the "**Financial Advisor**") in connection with the authorization and delivery of the Bonds. The payment of the Financial Advisor's fees for services rendered with respect to the sale of the Bonds is contingent upon the authorization and delivery of the Bonds. The Financial Advisor assumes no responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

MISCELLANEOUS

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

MOULTON NIGUEL WATER DISTRICT

By: _____
General Manager

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APPENDIX A

**AUDITED FINANCIAL STATEMENTS OF THE DISTRICT
FOR FISCAL YEAR ENDED JUNE 30, 2014**

APPENDIX B**SUMMARY OF CERTAIN PROVISIONS
OF THE INDENTURE**

The following is a brief summary of the provisions of the Indenture relating to the Bonds. This summary is not intended to be definitive, and reference is made to the complete document for the terms thereof.

APPENDIX C

ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE
SERVICE AREA OF THE DISTRICT

The following information is included only for the purpose of supplying general information regarding the service area of the District. The Bonds are not an obligation of Orange County, the State or any of its political subdivisions (other than the District to the limited extent set forth in this Official Statement), and neither the County, the State of California nor any of its political subdivisions (other than the District to the limited extent set forth in this Official Statement) is liable therefor.

General Description and Background

The District's service area totals approximately 36.5 square miles and includes the Cities of Aliso Viejo, Dana Point, Laguna Hills, Laguna Niguel and Mission Viejo, all of which are located in Orange County.

Aliso Viejo. The City of Aliso Viejo is located in the San Joaquin Hills of Orange County, with a total area of 7.5 square miles, all of which is land. The San Joaquin Hills are a coastal mountain range along the Pacific Coast. Aliso Viejo is bordered by the cities of Laguna Beach on the west and southwest, Laguna Hills on the east, Laguna Niguel on the southeast, and Laguna Woods on the north. The City became incorporated into Orange County on July 1, 2001.

Dana Point. The City of Dana Point is located in southern Orange County, has seven miles of coastline, and it is a popular local surf destination. Dana Point is approximately 29.5 square miles, of which 6.5 square miles is land and 23 square miles is water. The City of Dana Point was incorporated into Orange County in January 1989.

Laguna Hills. The City of Laguna Hills is located in the coastal San Joaquin Hills of southern Orange County and has a total area of 6.7 square miles, of which 6.7 square miles is land and 0.025 square miles is water. Laguna Hills is built on one of the major land grants developed during the Rancho Era in the early 19th Century. The City was incorporated into Orange County on December 20, 1991.

Laguna Niguel. The City of Laguna Niguel is a master planned community located in the coastal San Joaquin Hills of southern Orange County, with a total area of 14.9 square miles, of which 14.9 square miles is land and 0.05 square miles is water. Laguna Niguel is one of the first master planned communities in California. Like Laguna Hills, Laguna Niguel is built on one of the major land grants developed during the Rancho Era in the early 19th Century. The City was incorporated into Orange County on December 1, 1989.

Mission Viejo. The City of Mission Viejo is a master planned community located in southern Orange County, in the Saddleback Valley, with a total area of 18.1 square miles, of which 17.4 square miles is land and 0.38 square miles is water. Mission Viejo is one of the largest master planned communities ever built under a single project in the country. Mission Viejo is known for being one of the safest cities in the country. The City was incorporated into Orange County in 1988.

The County. The County of Orange (the "County") is located in southern California and is bordered on the southwest by the Pacific Ocean, on the north by Los

Angeles County, on the northeast by San Bernardino County and Riverside County, and on the southeast by San Diego County. The county seat is Santa Ana. The County is the third most populous county in the State but is the smallest county, in terms of square miles, in California. The County is famous for tourism, as it is home to Disneyland, Disney California Adventure Park, and Knott's Berry Farm. Many popular TV shows and movies have brought attention to the County's warm weather, beautiful coastline, and affluent residents.

Population

The following table sets forth population estimates for the Cities of Aliso Viejo, Dana Point, Laguna Hills, Laguna Niguel and Mission Viejo, Orange County and the State of California as of January 1 for the years 2010 to 2014:

**CITY OF ALISO VIEJO, CITY OF DANA POINT, CITY OF LAGUNA HILLS, CITY OF
LAGUNA NIGUEL, CITY OF MISSION VIEJO,
ORANGE COUNTY AND STATE OF CALIFORNIA
Estimated Population**

Year (January 1)	Aliso Viejo	Dana point	Laguna Hills	Laguna Niguel	Mission Viejo	Orange County	State of California
2010	47,411	33,403	30,396	63,005	93,394	3,008,855	37,223,900
2011	48,310	33,424	30,407	63,221	93,472	3,028,846	37,427,946
2012	49,025	33,690	30,564	63,734	94,262	3,057,879	37,668,804
2013	49,533	33,902	30,737	64,138	94,799	3,085,269	37,984,138
2014	49,951	34,037	30,857	64,460	95,334	3,113,991	38,340,074

Source: State of California Department of Finance, Demographic Research Unit.

#3.

Commercial Activity

Total taxable sales reported for calendar year 2013 in the City of Aliso Viejo were reported to be \$424,016,000, a 3.94% increase over the total taxable sales of \$407,934,000 reported for calendar year 2012. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City of Aliso Viejo is presented in the following table for the years 2009 to 2013. Annual figures are not yet available for 2014.

CITY OF ALISO VIEJO
Taxable Retail Sales
Number of Permits and Valuation of
Taxable Transactions (shown in thousands of dollars)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2009	682	\$301,240	1,052	\$344,773
2010	711	316,960	1,078	356,221
2011	713	329,124	1,089	386,269
2012	719	346,071	1,089	407,934
2013	648	355,302	986	424,016

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax)

Total taxable sales reported for calendar year 2013 in the City of Dana Point were reported to be \$442,273,000, an 8.47% increase over the total taxable sales of \$407,753,000 reported for calendar year 2012. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City of Dana Point is presented in the following table for the years 2009 to 2013. Annual figures are not yet available for 2014.

CITY OF DANA POINT
Taxable Retail Sales
Number of Permits and Valuation of
Taxable Transactions (shown in thousands of dollars)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2009	834	\$258,086	1,225	\$344,880
2010	821	263,244	1,220	357,551
2011	808	277,980	1,197	397,225
2012	849	287,180	1,228	407,753
2013	905	304,286	1,294	442,273

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Total taxable sales reported for calendar year 2013 in the City of Laguna Hills were reported to be \$494,819,000, a 4.55% increase over the total taxable sales of \$473,278,000 reported for calendar year 2012. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City of Laguna Hills is presented in the following table for the years 2009 to 2013. Annual figures are not yet available for 2014.

CITY OF LAGUNA HILLS
Taxable Retail Sales
Number of Permits and Valuation of
Taxable Transactions (shown in thousands of dollars)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2009	867	\$380,794	1,402	\$477,840
2010	834	373,050	1,357	462,741
2011	841	383,478	1,364	465,971
2012	852	395,224	1,366	473,278
2013	810	411,229	1,306	494,819

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

#3.

Total taxable sales reported for calendar year 2013 in the City of Laguna Niguel were reported to be \$991,919,000, a 1.02% increase over the total taxable sales of \$981,885,000 reported for calendar year 2012. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City of Laguna Niguel is presented in the following table for the years 2009 to 2013. Annual figures are not yet available for 2014.

CITY OF LAGUNA NIGUEL
Taxable Retail Sales
Number of Permits and Valuation of
Taxable Transactions (shown in thousands of dollars)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2009	1,137	\$745,782	1,750	\$864,402
2010	1,140	786,416	1,754	899,366
2011	1,169	838,376	1,788	949,718
2012	1,136	869,294	1,736	981,885
2013	1,135	867,574	1,726	991,919

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Total taxable sales reported for calendar year 2013 in the City of Mission Viejo were reported to be \$1,467,087,000, a 1.46% increase over the total taxable sales of \$1,445,932,000 reported for calendar year 2012. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City of Mission Viejo is presented in the following table for the years 2009 to 2013. Annual figures are not yet available for 2014.

CITY OF MISSION VIEJO
Taxable Retail Sales
Number of Permits and Valuation of
Taxable Transactions (shown in thousands of dollars)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2009	1,711	\$1,045,186	2,517	\$1,236,735
2010	1,723	1,095,922	2,550	1,296,304
2011	1,727	1,155,130	2,542	1,380,815
2012	1,719	1,218,596	2,511	1,445,932
2013	1,694	1,260,548	2,452	1,467,087

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Total taxable sales reported for calendar year 2013 in Orange County were reported to be \$57,591,217,000, a 4.27% increase over the total taxable sales of \$55,230,615,000 reported during calendar year 2012. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in Orange County is presented in the following table for the years 2009 to 2013. Annual figures are not yet available for 2014.

ORANGE COUNTY
Taxable Retail Sales
Number of Permits and Valuation of
Taxable Transactions (shown in thousands of dollars)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2009	56,259	\$31,162,619	90,231	\$45,712,784
2010	58,076	32,552,107	92,047	47,667,179
2011	58,795	35,587,795	92,207	51,731,139
2012	60,273	38,372,456	93,183	55,230,612
2013	62,208	40,025,929	94,862	57,591,217

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

#3.

Employment and Industry

The unemployment rate in the County was 4.4% in December 2014, unchanged from a revised 5.0% in November 2014, and below the year-ago estimate of 5.3%. This compares with an unadjusted unemployment rate of 6.7% for California and 5.4% for the nation during the same period. The table below shows average annual employment by industry group, and the unemployment rate, for the years 2009 to 2013. Data for year 2014 is not yet available.

SANTA ANA-ANAHEIM-IRVINE METROPOLITAN DIVISION (ORANGE COUNTY) Civilian Labor Force, Employment and Unemployment (Annual Averages-March 2013 benchmark)

	2009	2010	2011	2012	2013
Civilian Labor Force ⁽¹⁾	1,589,600	1,592,500	1,600,100	1,618,700	1,610,900
Employment	1,448,800	1,441,500	1,460,100	1,496,000	1,510,600
Unemployment	140,700	151,000	140,000	122,700	100,400
Unemployment Rate	8.9%	9.5%	8.8%	7.6%	6.2%
Wage and Salary Employment: ⁽²⁾					
Agriculture	3,800	3,700	3,200	2,700	3,000
Mining and Logging	500	500	500	500	500
Construction	74,200	68,000	69,200	71,300	77,300
Manufacturing	154,800	150,400	154,200	157,800	157,900
Wholesale Trade	79,400	77,600	77,000	76,700	79,200
Retail Trade	142,300	140,100	140,900	142,200	145,700
Transportation, Warehousing and Utilities	27,800	26,700	27,500	27,700	27,900
Information	27,300	24,800	23,800	24,200	25,400
Finance and Insurance	70,600	69,400	71,100	73,600	76,600
Real Estate and Rental and Leasing	34,500	34,100	33,600	34,400	35,900
Professional and Business Services	240,200	243,500	245,700	255,900	264,500
Educational and Health Services	152,100	155,500	158,800	163,400	181,900
Leisure and Hospitality	169,100	168,600	174,000	180,500	187,800
Other Services	42,600	42,200	43,200	44,300	45,500
Federal Government	11,700	12,400	11,600	11,100	11,000
State Government	27,700	27,300	28,000	28,600	29,000
Local Government	117,300	112,600	109,700	108,100	108,300
Total, All Industries ⁽³⁾	1,375,900	1,357,400	1,371,900	1,403,000	1,457,200

(1) (Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) (Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

Major Employers

The following table lists the principal employers in the Moulton Niguel Water District for the fiscal year ended June 30, 2014.

**MOULTON NIGUEL WATER DISTRICT
Principal Employers ⁽¹⁾
Fiscal Year Ended June, 30, 2014**

Rank	Employer	Operating City	Number of Employees	Percent of Each City's Employment
1	Mission Hospital Regional Medical Center	Mission Viejo	2,443	4.37%
2	Saddleback College	Mission Viejo	1,975	3.53
3	Fluor Corporation	Aliso Viejo	1,400	7.75
4	Saddleback Valley Unified School District	Mission Viejo	1,502	2.69
5	Saddleback Valley Memorial Hospital	Laguna Hills	1,020	5.86
6	Pacific Life Insurance	Aliso Viejo	700	3.79
7	Hines Growers LLC	Laguna Hills	600	3.44
8	Quest Software Inc.	Aliso Viejo	600	3.40
9	UPS	Aliso Viejo	600	3.25
10	Dell Software	Aliso Viejo	600	3.25

(1) Principal Employers represent blended data from the five cities the District serves: Aliso Viejo, Dana Point, Laguna Hills, Laguna Niguel and Mission Viejo. Ranked according to number of employees.

Source: *Moulton Niguel Water District Comprehensive Annual Fiscal Report Year Ended June 30, 2014.*

#3.

The following table lists the principal employers in the County, listed alphabetically, as of March 2015.

ORANGE COUNTY Principal Employers March 2015

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
Amcheck Inc-Irvine	Irvine	Human Resource Consultants
Anaheim City Hall	Anaheim	City Government-Executive Offices
Blogtagon Social Media	Fountain Valley	Internet Service
Boeing Co	Huntington Beach	Aircraft-Manufacturers
Boeing Co	Seal Beach	Aerospace Industries (Mfrs)
California State-Fullerton	Fullerton	Schools-Universities & Colleges Academic
Disneyland	Anaheim	Amusement & Theme Parks
Emplicity	Irvine	Employment Contractors-Temporary Help
First American Title Ins Co	Santa Ana	Title Companies
Gateway	Irvine	Hardware-Retail
Hoag Hospital Newport Beach	Newport Beach	Hospitals
Jones Lang La Salle	Brea	Real Estate Management
Laguna Woods Village Cmnty Ctr	Laguna Woods	Senior Citizens Service
Puro Clean	Anaheim	Fire Damage Restoration
Quest Diagnostics	San Juan Capistrano	Laboratories-Medical
Quiksilver Eyeware USA	Huntington Beach	Optical Goods-Retail
Raytheon Co	Fullerton	Computers-Electronic-Manufactu
St Jude Medical Ctr	Brea	Hospitals
St Jude Medical Ctr	Fullerton	Hospitals
Tenet Healthcare	Fountain Valley	Hospitals
Uc Irvine Healthcare	Orange	Hospitals
United Healthcare	Cypress	Health Plans
University of Ca-Irvine	Irvine	Schools-Universities & Colleges Academic
University-Ca Irvine Med Ctr	Orange	Medical Centers
US Health Care Svc	Seal Beach	Health & Allied Services

Source: State of California Employment Development Department, compiled from America's Labor Market Information System (ALMIS) Employer Database, 2015 1st Edition.

Construction Activity

The following table shows a five-year summary of the valuation of building permits issued in the City of Aliso Viejo.

CITY OF ALISO VIEJO Building Permit Valuation (Valuation in Thousands of Dollars)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>Permit Valuation</u>					
New Single-family	\$23,472.0	\$15,811.1	\$24,360.9	\$28,847.5	\$7,354.7
New Multi-family	2,001.6	7,516.3	3,690.3	7,0352.0	1,457.6
Res. Alterations/Additions	<u>3,494.1</u>	<u>2,240.1</u>	<u>3,258.5</u>	<u>2,814.9</u>	<u>4,544.8</u>
Total Residential	28,967.7	25,567.5	31,309.7	102,014.4	13,357.1
New Commercial	0.0	0.0	2,059.2	10,882.2	942.4
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	44,471.1	2,462.9	0.0	524.0	20.0
Com. Alterations/Additions	<u>7,617.3</u>	<u>11,825.4</u>	<u>12,131.9</u>	<u>12,366.3</u>	<u>8,814.4</u>
Total Nonresidential	\$52,088.4	\$14,288.3	\$14,191.1	\$23,772.5	\$9,776.8
<u>New Dwelling Units</u>					
Single Family	93	59	105	102	26
Multiple Family	<u>14</u>	<u>50</u>	<u>21</u>	<u>35</u>	<u>8</u>
TOTAL	107	109	126	137	34

Source: Construction Industry Research Board, Building Permit Summary.

The following table shows a five-year summary of the valuation of building permits issued in the City of Dana Point.

CITY OF DANA POINT Building Permit Valuation (Valuation in Thousands of Dollars)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>Permit Valuation</u>					
New Single-family	\$12,926.8	\$15,505.8	\$12,484.4	\$13,759.1	\$15,626.2
New Multi-family	0.0	0.0	0.0	0.0	0.0
Res. Alterations/Additions	<u>9,975.6</u>	<u>12,980.9</u>	<u>17,660.6</u>	<u>11,789.7</u>	<u>17,698.7</u>
Total Residential	22,902.4	28,486.7	30,145.0	25,548.8	33,324.9
New Commercial	0.0	0.0	0.0	3,376.8	5,669.2
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	5,069.3	2,952.4	0.0	0.0	0.0
Com. Alterations/Additions	<u>3,460.5</u>	<u>4,277.2</u>	<u>1,548.2</u>	<u>4,113.1</u>	<u>5,376.1</u>
Total Nonresidential	\$8,529.8	\$7,229.6	\$1,548.2	\$7,489.9	\$11,045.3
<u>New Dwelling Units</u>					
Single Family	12	14	14	13	15
Multiple Family	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	12	14	14	13	15

Source: Construction Industry Research Board, Building Permit Summary.

#3.

The following table shows a five-year summary of the valuation of building permits issued in the City of Laguna Hills.

**CITY OF LAGUNA HILLS
Building Permit Valuation
(Valuation in Thousands of Dollars)**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>Permit Valuation</u>					
New Single-family	\$0.0	\$2,905.0	\$0.0	\$700.0	\$0.0
New Multi-family	0.0	0.0	0.0	0.0	0.0
Res. Alterations/Additions	<u>6,504.7</u>	<u>12,607.8</u>	<u>14,238.6</u>	<u>22,612.0</u>	<u>6,586.4</u>
Total Residential	6,504.7	15,512.8	14,238.6	23,312.0	6,586.4
New Commercial	0.0	0.0	0.0	11,447.9	2,159.9
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	3,465.6	4,174.9	0.0	0.0	2,884.4
Com. Alterations/Additions	<u>5,574.3</u>	<u>5,949.4</u>	<u>11,577.8</u>	<u>12,520.5</u>	<u>26,748.2</u>
Total Nonresidential	\$9,039.9	\$10,124.3	\$11,577.8	\$23,968.4	\$31,792.5
<u>New Dwelling Units</u>					
Single Family	0	3	0	1	0
Multiple Family	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	0	3	0	1	0

Source: Construction Industry Research Board, Building Permit Summary.

The following table shows a five-year summary of the valuation of building permits issued in the City of Laguna Niguel.

**CITY OF LAGUNA NIGUEL
Building Permit Valuation
(Valuation in Thousands of Dollars)**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>Permit Valuation</u>					
New Single-family	\$22,730.9	\$15,700.9	\$3,442.0	\$7,315.7	\$22,168.5
New Multi-family	0.0	0.0	0.0	0.0	75,583.7
Res. Alterations/Additions	<u>15,341.8</u>	<u>12,443.1</u>	<u>12,256.7</u>	<u>19,572.2</u>	<u>16,255.9</u>
Total Residential	38,072.7	28,144.0	15,698.7	26,887.9	114,008.1
New Commercial	0.0	0.0	0.0	9,317.2	58,155.8
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	4,475.9	2,787.9	0.0	0.0	0.0
Com. Alterations/Additions	<u>2,927.8</u>	<u>4,659.4</u>	<u>11,896.0</u>	<u>4,782.0</u>	<u>30,746.9</u>
Total Nonresidential	\$7,403.7	\$7,447.3	\$11,896.0	\$14,099.2	\$88,902.7
<u>New Dwelling Units</u>					
Single Family	60	37	8	15	42
Multiple Family	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>284</u>
TOTAL	60	37	8	15	326

Source: Construction Industry Research Board, Building Permit Summary.

The following table shows a five-year summary of the valuation of building permits issued in the City of Mission Viejo.

CITY OF MISSION VIEJO
Building Permit Valuation
(Valuation in Thousands of Dollars)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>Permit Valuation</u>					
New Single-family	\$0.0	\$800.0	\$5,179.0	\$6,874.8	\$1,543.1
New Multi-family	0.0	0.0	558.0	45,953.0	47,123.7
Res. Alterations/Additions	<u>9,064.9</u>	<u>8,257.9</u>	<u>18,172.0</u>	<u>10,098.3</u>	<u>9,706.4</u>
Total Residential	9,064.9	9,057.90	23,909.0	62,926.1	58,373.2
New Commercial	12,505.5	0.0	4,500.0	11,512.1	1,368.3
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	3,393.2	2,746.1	900.0	0.0	730.7
Com. Alterations/Additions	<u>10,563.2</u>	<u>15,426.4</u>	<u>16,159.8</u>	<u>9,264.7</u>	<u>4,116.8</u>
Total Nonresidential	\$26,461.9	\$18,172.5	\$21,559.8	\$20,776.8	\$6,215.9
<u>New Dwelling Units</u>					
Single Family	0	1	38	48	5
Multiple Family	<u>0</u>	<u>0</u>	<u>4</u>	<u>334</u>	<u>251</u>
TOTAL	0	1	42	382	256

Source: Construction Industry Research Board, Building Permit Summary.

The following table shows a five-year summary of the valuation of building permits issued in the County.

ORANGE COUNTY
Building Permit Valuation
(Valuation in Thousands of Dollars)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>Permit Valuation</u>					
New Single-family	\$437,832.0	\$492,529.5	\$518,681.8	\$752,931.2	\$1,237,994.2
New Multi-family	109,750.2	208,046.8	378,599.9	438,118.2	994,873.8
Res. Alterations/Additions	<u>307,610.4</u>	<u>328,830.0</u>	<u>450,105.3</u>	<u>363,854.8</u>	<u>363,674.9</u>
Total Residential	855,192.6	1,029,406.2	1,347,387.0	1,554,904.2	2,596,542.9
New Commercial	153,465.6	264,898.3	255,841.4	513,584.4	631,018.8
New Industrial	0.0	23,000.0	10,300	102,586.7	47,369.9
New Other	150,751.4	116,813.1	25,511.4	28,591.8	110,663.7
Com. Alterations/Additions	<u>648,267.8</u>	<u>747,216.7</u>	<u>896,906.9</u>	<u>697,630.6</u>	<u>928,629.2</u>
Total Nonresidential	\$952,484.7	\$1,151,928.1	\$1,188,559.7	\$1,342,393.5	\$1,717,681.6
<u>New Dwelling Units</u>					
Single Family	1,376	1,553	1,908	2,438	3,889
Multiple Family	<u>824</u>	<u>1,538</u>	<u>2,897</u>	<u>3,725</u>	<u>6,564</u>
TOTAL	2,200	3,091	4,805	6,163	10,453

Source: Construction Industry Research Board, Building Permit Summary.

#3.

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for the County, the State of California and the United States for the period 2009 through 2013. Data is not yet available for calendar year 2014.

ORANGE COUNTY, STATE OF CALIFORNIA & UNITED STATES Effective Buying Income 2009 through 2013

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (in Thousands)</u>	<u>Median Household Effective Buying Income</u>
2009	Orange County	\$79,478,835	\$61,470
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	Orange County	\$75,063,558	\$57,849
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	Orange County	\$76,315,505	\$57,607
	California	814,578,458	47,062
	United States	6,438,704,664	41,253
2012	Orange County	\$81,079,398	\$57,181
	California	864,088,828	47,307
	United States	6,737,867,730	41,358
2013	Orange County	\$81,151,078	\$59,589
	California	858,676,636	48,340
	United States	6,982,757,379	43,715

Source: The Nielsen Company (US), Inc.

APPENDIX D

_____, 2015

Board of Directors
Moulton Niguel Water District
27500 La Paz Road
Laguna Niguel, CA 92656

Re: \$_____ Moulton Niguel Water District 2015 Revenue Refunding Bonds

Members of the Board of Directors:

We have acted as bond counsel to the Moulton Niguel Water District (the "District") in connection with the issuance by the District of the captioned bonds (the "Bonds"). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the "Bond Law"), the Indenture of Trust, dated as of June 1, 2015 (the "Indenture"), by and between the District and U.S. Bank National Association, as trustee (the "Trustee"), and a resolution (the "Resolution") of the Board of Directors of the District adopted _____, 2015. Under the Indenture, the District has pledged certain revenues (the "Revenues") for the payment of principal, premium (if any), and interest on the Bonds when due.

Regarding questions of fact material to our opinion, we have relied on representations of the District contained in the Resolution and 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 on the foregoing, we are of the opinion that, under existing law:

1. The District is duly created and validly existing as a California water district, with the power to adopt the Resolution, enter into the Indenture and perform the agreements on its part contained therein, and issue the Bonds.
2. The Indenture has been duly authorized, executed and delivered by the District, and constitutes a valid and binding obligation of the District, enforceable against the District.
3. The Indenture creates a valid lien on the Revenues and other funds pledged by the Indenture for the security of the Bonds, on a parity with other bonds (if any) issued or to be issued under the Indenture.
4. The Bonds have been duly authorized and executed by the District, and are valid and binding limited obligations of the District, payable solely from the Revenues and other funds provided therefor in the Indenture.

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5. Interest on the Bonds is excludable 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 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 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 interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. 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 are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$ _____*

MOULTON NIGUEL WATER DISTRICT
2015 REVENUE REFUNDING BONDS

This CONTINUING DISCLOSURE CERTIFICATE (this “Disclosure Certificate”) is executed and delivered by the MOULTON NIGUEL WATER DISTRICT (the “District”) in connection with the execution and delivery of the bonds captioned above (the “Bonds”). The Bonds are being executed and delivered pursuant to an Indenture, dated as of June 1, 2015 (the “Indenture”), by and between the District and U.S. Bank National Association (the “Bank”), in its capacity as trustee.

The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

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

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

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

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

“*Listed Events*” 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.

* Preliminary; subject to change.

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

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“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 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 1, 2016, with the report for the 2014-15 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. 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.

(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 Exhibit A to this Disclosure Certificate.

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

(i) determine prior to each 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 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 Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The following information:

(i) The principal amount of Bonds Outstanding as of the December 31 preceding the next Annual Report Date; and

(ii) An update of the information contained in Table Nos. 1, 5, 9, 13 and 17 of the Official Statement.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the District shall provide such further material 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) The District shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.

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- (12) Bankruptcy, insolvency, receivership or similar event of the District or other obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving the District or an obligated person, or the sale of all or substantially all of the assets of the District or an obligated person (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.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(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.

(c) The District acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The District shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the District obtains knowledge of the occurrence of any of these Listed Events, the District will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the District will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District .

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB pursuant to this 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 Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Bank. Any Dissemination Agent may resign by providing 30 days' written notice to the District.

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 nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report 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 this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report 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 any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 5(b).

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

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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. If the District fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or 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. (a) 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 they 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 Dissemination Agent shall have no duty or obligation to review any information provided to it by the District hereunder, and shall not be deemed to be acting in any fiduciary capacity for the District, the Bond holders or any other party. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

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

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Section 15. Governing Law. This Disclosure Certificate is to be construed in accordance with and governed by the laws of the State of California.

Date: _____, 2015

MOULTON NIGUEL WATER DISTRICT

By: _____
Name: _____
Title: _____

AGREED AND ACCEPTED:

U.S. BANK NATIONAL ASSOCIATION,
as Dissemination Agent

By: _____
Name: _____
Title: _____

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Moulton Niguel Water District (the "District")

Name of Issue: Moulton Niguel Water District 2015 Revenue Refunding Bonds

Date of Issuance: _____, 2015

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report for fiscal year _____ with respect to the above-named Bonds as required by the Indenture, dated as of June 1, 2015, by and between the District and U.S. Bank National Association, as trustee. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

DISSEMINATION AGENT:

By: _____

Its: _____

APPENDIX F**BOOK ENTRY ONLY SYSTEM**

The following description of the Depository Trust Company (“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. The Depository Trust Company (“DTC”), New York, NY, 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

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companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com 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.

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APPENDIX G

CURRENT WATER RATES

Fiscal Years _____ through _____

APPENDIX H

CURRENT SEWER RATES

Fiscal Years _____ through _____

INDENTURE OF TRUST

between the

MOULTON NIGUEL WATER DISTRICT

and

**U.S. BANK NATIONAL ASSOCIATION,
*as Trustee***

Dated as of June 1, 2015

Relating to

**\$ _____
Moulton Niguel Water District
2015 Revenue Refunding Bonds**

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INDENTURE OF TRUST

This INDENTURE OF TRUST, dated as of June 1, 2015, is between the MOULTON NIGUEL WATER DISTRICT, a California water district organized and existing under Section 34000 et seq. of the California Water Code (the "District"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, with a corporate trust office in San Francisco, California, and being qualified to accept and administer the trusts hereby created (the "Trustee").

BACKGROUND:

1. The District previously entered into an Installment Sale Agreement dated as of August 1, 2003 (the "2003 Agreement") with the Moulton Niguel Water District Public Facilities Corporation (the "Corporation") in connection with the execution and delivery of \$25,145,000 aggregate principal amount of the 2003 Refunding Certificates of Participation (the "2003 Certificates").

2. The proceeds of the 2003 Certificates were used to refinance the acquisition of certain water, recycled water and sewer facilities improvements by refinancing a portion of the District's obligations under an Installment Sale Agreement, dated as of November 1, 1993, and causing a prepayment on a current basis of the Moulton Niguel Water District 1993 Certificates of Participation (the "1993 Certificates").

3. Certain payments (the "2003 Installment Payments") made by the District to the Corporation under the 2003 Agreement were assigned to U.S. Bank National Association, as trustee (the "2003 Trustee") for the 2003 Certificates, for the purpose of paying the principal and interest with respect to the 2003 Certificates.

4. In order to realize debt service savings, the District now desires to prepay the 2003 Installment Payments, thereby causing the redemption of the 2003 Certificates, and is entitled to do so under the provisions of Section 6.01(a) of the 2003 Agreement and Section 401 of the Trust Indenture, dated as of August 1, 2003, relating to the 2003 Certificates (the "2003 Trust Indenture") among the 2003 Trustee, the Corporation and the District.

5. To that end, the District proposes to issue its Moulton Niguel Water District 2015 Revenue Refunding Bonds (the "Bonds") under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code (the "Bond Law"), and, except as set forth in Section 3.07 below, the Bonds will be secured by a pledge of first, the Tax Revenues (as defined below), and, second, the Net Revenues (as defined below).

6. The pledge of Tax Revenues and Net Revenues to the Bonds shall be on a parity basis with the District's pledge of Tax Revenues and Net Revenues as security for:

(a) the District's obligation to make certain installment payments (the "2009 Installment Payments") under an Installment Sale Agreement, dated as of December 1, 2009 (the "2009 Agreement"), by and between the District and the

Corporation relating to the \$60,000,000 2009 Certificates of Participation (Federally Taxable - Build America Bonds - Direct Payment) (the “2009 Certificates”);

(b) the District’s obligation to make certain installment payments (the “2010 Installment Payments”) under an Installment Sale Agreement, dated as of November 1, 2010 (the “2010 Agreement”), by and between the District and the Corporation relating to the \$8,965,000 2010 Certificates of Participation (1993 Refunding) (the “2010 Certificates”); and

(c) the District’s obligation to make certain installment payments under California Infrastructure Development Bank (CIEDB) Enterprise Fund Installment Sale Agreements 01-020 and 02-026 (the “CIEDB Agreements”).

7. The pledge of Tax Revenues and Net Revenues to the Bonds shall be on a parity basis with the District’s pledge of Tax Revenues and certain Net Revenues (“Governmental Loans Pledged Revenues”) as security for the following obligations: (i) State Revolving Fund Loans designated “Phase III Recycled Water SRF Loan Nos. C-06-4150-110 and C-06-4150-130” and “Phase IV Recycled Water SRF Loan No. C-06-4150-120” (“SRF Loans”), (ii) State of California Department of Water Resources Water Conservation Loan Program Contract E62040 (the “DWR Loan”); and

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

A G R E E M E N T :

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

ARTICLE I

DEFINITIONS; RULES OF CONSTRUCTION

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

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

SECTION 1.03. *Interpretation.*

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

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

(c) All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

ARTICLE II

ISSUANCE OF BONDS

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

The District hereby authorizes the issuance of Bonds in the aggregate principal amount of \$_____ under the Bond Law for the purposes of providing funds to prepay the 2003 Installment Payments and cause the prepayment of the 2003 Certificates, and thereby discharge the District's obligations under the 2003 Agreement and the 2003 Trust Indenture, in accordance with the Escrow Agreement. The Bonds are authorized and issued under, and are subject to the terms of, this Indenture and the Bond Law. The Bonds are designated the "Moulton Niguel Water District 2015 Revenue Refunding Bonds."

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

Maturity Date (September 1)	Principal Amount	Interest Rate	Maturity Date (September 1)	Principal Amount	Interest Rate
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Interest on the Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless:

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

Interest is payable on each Interest Payment Date to the persons in whose names the ownership of the Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any Bond which is not punctually paid or duly provided for on any Interest Payment Date is payable to the person in whose name the ownership of such Bond is registered on the Registration Books at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee, notice of which is given to such Owner by first-class mail not less than 10 days prior to such special record date.

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

SECTION 2.03. *No Redemption of Bonds.* The Bonds are not subject to redemption prior to their respective stated maturities.

SECTION 2.04. *Book Entry System.*

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

With respect to Bonds the ownership of which is registered in the name of the Nominee, The District and the Trustee have no responsibility or obligation to any Depository System Participant or to any person on behalf of which the Nominee holds an interest in the Bonds. Without limiting the generality of the immediately preceding sentence, neither The District nor the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Depository System Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any notice with respect to the Bonds, including any notice of redemption, if applicable (iii) if applicable the selection by the Depository of the beneficial interests in the Bonds to be redeemed if The District elects to redeem the Bonds in part, (iv) the payment to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any amount with respect to principal, premium, if any, or interest on the Bonds or (v) any consent given or other action taken by the Depository as Owner of the Bonds. The District and the Trustee may treat and consider the person in whose name each Bond is registered as the absolute owner of such Bond for the purpose of payment of principal of and premium, if any, and interest on such Bond, for the purpose of giving notices of redemption, if applicable, and other matters with respect to such Bond, for the purpose of registering transfers of ownership of such Bond, and for all other purposes whatsoever. The Trustee shall pay the principal of and the interest and premium, if any, on the Bonds only to the respective Owners or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge all obligations with respect to payment of principal of and interest and premium, if any, on the Bonds to the extent of the sum or sums so paid. No person other than a Bond Owner shall receive a Bond evidencing the obligation of The District to make payments of principal, interest and premium, if any, under this Indenture. Upon delivery by the Depository to The District of written notice to the effect that the Depository has determined to substitute a new Nominee in its place, and subject to the provisions herein with respect to Record Dates, such new nominee shall become the Nominee hereunder for all purposes; and upon receipt of such a notice The District shall promptly deliver a copy of the same to the Trustee.

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

necessary for all representations of the Trustee in such letter with respect to the Trustee to at all times be complied with. In addition to the execution and delivery of such letter, The District may take any other actions, not inconsistent with this Indenture, to qualify the Bonds for the Depository's book-entry program.

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

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

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

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

The President of the Board of Directors of the District shall execute, and the Secretary of the District shall attest, each Bond. Either or both of such signatures may be made manually or may be affixed by facsimile thereof. If any officer whose signature appears on any Bond ceases to be such officer before the Closing Date, such signature will nevertheless be as effective as if the officer had remained in office until the Closing Date. Any Bond may be signed and attested on behalf of the District by such persons as at the actual date of the execution of such Bond are the proper officers of the District, duly

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authorized to execute debt instruments on behalf of the District, although on the date of such Bond any such person was not an officer of the District.

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

SECTION 2.06. *Transfer and Exchange of Bonds.*

(a) Transfer. Any Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by a duly authorized attorney of such person, upon surrender of such Bond to the Trustee at its Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. The Trustee shall collect any tax or other governmental charge on the transfer of any Bonds under this Section 2.06. Whenever any Bond or Bonds shall be surrendered for transfer, the District shall execute and the Trustee shall authenticate and deliver to the transferee a new Bond or Bonds of like series, interest rate, maturity and aggregate principal amount. the District shall pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer of Bonds.

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

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

SECTION 2.08. *Bonds Mutilated, Lost, Destroyed or Stolen.* If any Bond is mutilated, the District, at the expense of the Owner of such Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. The Trustee shall cancel every mutilated Bond surrendered to it and deliver such mutilated Bond to, or upon the order of, the District. If any Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence is satisfactory and if indemnity satisfactory to the Trustee is given, the District, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be incurred by the Trustee in connection therewith. Any Bond

issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the District whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Indenture with all other Bonds issued under this Indenture.

Notwithstanding any other provision of this Section 2.08, in lieu of delivering a new Bond for which principal has become due for a Bond which has been mutilated, lost, destroyed or stolen, the Trustee may make payment of such Bond in accordance with its terms upon receipt of indemnity satisfactory to the Trustee.

ARTICLE III

**ISSUE OF BONDS; PARITY OBLIGATIONS;
GOVERNMENTAL LOANS**

SECTION 3.01. *Issuance of Bonds.* Upon the execution and delivery of this Indenture, the District shall execute and deliver Bonds in the aggregate principal amount of \$_____ to the Trustee and the Trustee shall authenticate and deliver the Bonds to the Original Purchaser upon receipt of a Request of the District therefor.

SECTION 3.02. *Deposit and Application of Proceeds.* On the Closing Date, the Trustee shall apply the proceeds of the Bonds as follows:

(a) The Trustee shall deposit the amount of \$_____ into the Costs of Issuance Fund.

(b) The Trustee shall transfer the amount of \$_____ to the 2003 Trustee, for deposit and application in accordance with the Escrow Agreement.

(c) The Trustee shall deposit the amount of \$_____ into the Reserve Fund.

The Trustee may establish a temporary fund or account in its records to facilitate such deposits and transfer.

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

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SECTION 3.04. *Reserve Fund.* There is hereby created a separate fund to be known as the "Reserve Fund", to be held in trust by the Trustee. An amount equal to the Reserve Requirement shall be maintained in the Reserve Fund at all times, and any deficiency therein shall be replenished from the first available Net Revenues under Section 4.04.

If the amounts on deposit in the Debt Service 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 Debt Service 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 for any lawful use.

SECTION 3.05. *Issuance of Parity Obligations.*

(a) No Superior Obligations. In order to further protect the availability of Tax Revenues and Net Revenues and the security for the Bonds and Parity Obligations, the District hereby agrees that the District shall not, so long as any Bonds or Parity Obligations are outstanding, issue or incur any obligations payable from the Tax Revenues and/or Net Revenues which are superior to the Bonds or Parity Obligations.

(b) Issuance of Parity Obligations. The District further covenants that, except for obligations issued or incurred to refund the Bonds, or to otherwise prepay or refund Parity Obligations which are presently outstanding, District shall not issue or incur any Additional Obligations unless, except as set forth in Section 3.07 below:

(i) The District is not in default under the terms of this Indenture or outstanding Parity Obligation Instruments;

(ii) Either (A) the Net Revenues, as shown by the books and records of the District for the latest Fiscal Year or for any 12 consecutive month period within the last complete 18-month period ended not more than one month before the issuance of or incurrence of such Additional Obligations, as set forth in a certificate of an Independent Consultant, together with the Tax Revenues, or (B) the estimated Net Revenues for the first complete Fiscal Year when the improvements to the water, recycled water or sewer system financed with the proceeds of the Additional Obligations shall be in operation, as estimated by and set forth in a certificate of an Independent Consultant, together with the Tax Revenues, plus, at the option of the District, any or all of the items set forth hereinafter in this covenant designated under subsection (c) below, shall have amounted to not less than 1.10 times Maximum Annual Debt Service in any Fiscal Year thereafter; and

(iii) A Parity Reserve is established for the proposed Additional Obligations which in the case of a cash reserve is equal to an amount calculated using the formula established for the Reserve Requirement, but with respect to the amount or debt service of the Additional Obligations, which shall be established as a reserve fund separate and apart from the Reserve Fund under the Trust Indenture and from Parity Reserves under any outstanding Parity Obligation Instruments. *This provision is deleted in the circumstances set forth in Section 3.07.*

(c) Adjustments to Net Revenues. For purposes of the calculations required in (b)(ii) above, Net Revenues may be adjusted to include:

(i) the estimated annual amount expected to be received from any increase in District rates or charges, calculated on the basis of any percentage or dollar increase authorized by the Board of Directors either during or subsequent to the reporting period, but in no event later than the date of the Parity Obligation Instrument authorizing the Additional Obligations for which the calculation is made; and

(ii) to the extent not included in (c)(i), an amount equal to 75% of the anticipated Net Revenues expected to be derived from each addition, betterment, extension or improvement to the water, recycled water or sewer system which may be acquired or constructed from proceeds of the Additional Obligations for which the calculation is made. Such estimates are required to be based upon rates and charges which are in effect on or prior to the date of the Parity Obligation Instrument authorizing the Additional Obligations for which the calculation is made.

(d) Credit For Certain Funds. For purposes of the calculations required in (b)(ii) above, Maximum Annual Debt Service shall exclude: (i) amounts on deposit in the Debt Service Fund under this Indenture and debt service funds created under Parity Debt Instruments for Parity Obligations; and (ii) amounts on deposit in any debt service funds created under Governmental Loan Instruments for Governmental Loans.

(e) Amendment by Section 3.07. Section 3.05 shall be amended in the manner and in the circumstances set forth in Section 3.07.

SECTION 3.06. *Government Loans; Limitations on Additional Governmental Loans.*

(a) Existing Governmental Loans. The District has previously incurred the Governmental Loans listed in clauses (i) and (ii) of the definition of the term "Governmental Loans", which are secured by a pledge of the Governmental Loan Pledged Revenues. The Governmental Loans are on a parity with the Parity Obligations with respect to Tax Revenues and those Net Revenues consisting of Governmental Loan Pledged Revenues.

(b) Additional Governmental Loans. The District covenants that, except for obligations issued or incurred to prepay or refund Governmental Loans which are presently outstanding, the District shall not issue or incur any Additional Governmental Loans unless, except as set forth in Section 3.07 below:

(i) The District is not in default under the terms of this Indenture or outstanding Governmental Loan Instruments;

(ii) Either (A) the Governmental Loans Pledged Revenues, as shown by the books and records of District for the latest Fiscal Year or for any 12 consecutive month period within the last complete 18-month period ended not more than one month before the issuance of or incurrence of such Additional Governmental Loan, as set forth in a certificate of an Independent Consultant, or (B) the estimated Governmental Loans Pledged Revenues for the first complete Fiscal Year when the improvements to the water, recycled water or sewer system

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financed with the proceeds of the Additional Governmental Loan shall be in operation, as estimated by and set forth in a certificate of an Independent Consultant, plus, at the option of the District, any or all of the items set forth hereinafter in this covenant designated under subsection (c) below, shall have amounted to not less than 1.10 times Maximum Annual Debt Service in any Fiscal Year thereafter; and

(iii) A reserve is established for the proposed Additional Governmental Loan which in the case of a cash reserve is equal to an amount calculated using the formula established for the Reserve Requirement, but with respect to the amount or debt service of the Additional Governmental Loan, which shall be established as a reserve fund separate and apart from the Reserve Fund under the Trust Indenture and from reserves under any outstanding Governmental Loan Instruments. *This provision is deleted in the circumstances set forth in Section 3.07.*

(c) Adjustments to Governmental Loan Pledged Revenues. For purposes of the calculations required in (b)(ii) above, Governmental Loan Pledged Revenues may be adjusted to include:

(i) the estimated annual amount expected to be received from any increase in District rates or charges, calculated on the basis of any percentage or dollar increase authorized by the Board of Directors either during or subsequent to the reporting period, but in no event later than the date of the Governmental Loan Instrument authorizing the Additional Governmental Loan for which the calculation is made; and

(ii) to the extent not included in (c)(i), an amount equal to 75% of the anticipated Governmental Loan Pledged Revenues expected to be derived from each addition, betterment, extension or improvement to the water, recycled water or sewer system which may be acquired or constructed from proceeds of the Additional Governmental Loan for which the calculation is made. Such estimates are required to be based upon rates and charges which are in effect on or prior to the date of the Governmental Loan Instrument authorizing the Additional Governmental Loan for which the calculation is made.

(d) Credit For Certain Funds. For purposes of the calculations required in (b)(ii) above, Maximum Annual Debt Service shall exclude: (i) amounts on deposit in any debt service funds created under Governmental Loan Instruments for Governmental Loans; and (ii) amounts on deposit in the Installment Payment Fund under the Trust Indenture and debt service funds created under Parity Debt Instruments for Parity Obligations.

SECTION 3.07. *Automatic Amendments.* At such time as the Governmental Loans listed in clauses (i) and (ii) of the definition of the term "Governmental Loans" and the Parity Obligations listed in clauses (i), (ii), (iv) and (v) of the definition of the term "Parity Obligations" are no longer outstanding on their terms, then the following provisions of this Indenture shall be automatically amended without any further consent or notice required except that the District shall provide notice to the Trustee that such amendments have taken effect:

(a) Automatic Amendments to Section 3.05.

(i) The requirement for a Parity Reserve set forth in Section 3.05(b)(iii) shall be eliminated and shall have no further force or effect.

(ii) All references to "Tax Revenues" in Section 3.05 shall be deemed to have been deleted and shall have no further force or effect.

(b) Automatic Amendments to Section 3.06. The requirement for a reserve set forth in Section 3.06(b)(iii) shall be eliminated.

(c) Amendments to Defined Terms. Appendix A shall be amended as follows:

(i) The defined term "Tax Revenues" shall be deemed to have been deleted and shall have no further force or effect.

(ii) The defined term "Non-Operating Revenues" shall be amended to mean (A) rents, insurance and condemnation proceeds, (B) amounts appropriated from the Rate Stabilization Fund, (C) the Refundable Credits, (D) the proceeds derived by the District directly or indirectly from the sale, lease or other disposition of any part of, or rights, in the District's water, recycled water and sewer systems, (E) the amount of property tax revenues (as defined in Section 95 of the Revenue and Taxation Code of the State of California) apportioned, allocated and paid by the Orange County Tax Collector to District pursuant to Section 75.70 and Chapter 6 (commencing with Section 95) of Part 0.5 of Division 1 of the Revenue and Taxation Code of the State of California, as amended from time to time) and (F) other moneys (other than Operating Revenues) received by the District in connection with the water, recycled water and sewer systems.

(b) Deemed Deletion of Tax Revenues. The references in this Indenture to the term "Tax Revenues" that are in addition to those described in the preceding subsections of this Section 3.07 shall be deemed to have been deleted and shall have no further force or effect.

SECTION 3.08. *Validity of Bonds.* The recital contained in the Bonds that they are issued under the Laws of the State of California is conclusive evidence of their validity and of the regularity of their issuance.

ARTICLE IV

REVENUES; PAYMENT OF DEBT SERVICE

SECTION 4.01. *Pledge of Net Revenues.*

(a) The Bonds and any Parity Debt Service are equally secured by a first pledge, charge and lien upon, first, the Tax Revenues and, second, the Net Revenues, and the Bonds are further secured by a first pledge, charge and lien upon moneys in the Debt Service Fund and the Reserve Fund, including all amounts derived from the investment of such moneys, without priority for series, issue, number or date, and the payment of the interest on and principal of the Bonds shall be and is secured by an exclusive pledge, charge and lien upon such moneys. The Tax Revenues and Net Revenues shall constitute a trust fund for the security and payment of the Bonds and Parity Debt Service. As provided in Section 3.06(a), Governmental Loans are secured by a pledge of Governmental Loans Pledged Revenues, which includes Tax Revenues and that portion of Net Revenues described in the definition of Governmental Loans Pledged Revenues, on a parity with the Bonds and Parity Debt with respect to Tax Revenues and that portion of Net Revenues described in the definition of Governmental Loans Pledged Revenues.

(b) Limited Obligation of District. The District shall have no obligation to use any funds other than the Tax Revenues and the Net Revenues and with respect to the Bonds, moneys in the Debt Service Fund and the Reserve Fund, directly or indirectly, to pay principal of or interest on the Bonds or Parity Debt Service; nor are any funds other than the Tax Revenues and the Net Revenues and with respect to the Bonds, moneys in the Debt Service Fund and the Reserve Fund, so pledged as security for the payment of the debt service on the Bonds or Parity Debt Service.

(c) No Obligation to Levy Taxes. The obligation of District to pay debt service on the Bonds and Parity Debt Service does not constitute an obligation of District for which District is obligated to levy any form of taxation.

SECTION 4.02. *Payment of Debt Service.* The District agrees to pay principal of and interest on the Bonds when due, from the following sources:

- (1) first, from Tax Revenues; and
- (2) second, to the extent Tax Revenues are not sufficient to pay all required amounts, from Net Revenues.

In order to provide for the payment of the principal of and interest on the Bonds when due, the District shall, at least five Business Days prior to each Interest Payment Date, transfer to the Trustee for deposit into the Debt Service Fund (which the Trustee shall establish and hold in trust hereunder), an amount equal to the principal of and interest due on the next succeeding Interest Payment Date, less any funds then on hand in the Debt Service Fund.

The Trustee shall apply amounts in the Debt Service Fund solely for the purpose of (A) paying the interest on the Outstanding Bonds when due and payable, and (B) 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 Debt Service Fund to the District for any lawful use.

SECTION 4.03. *Maintenance and Application of Rate Stabilization Fund.*

(a) Maintenance of Rate Stabilization Fund. The District hereby covenants that it shall maintain the Rate Stabilization Fund separate and apart from other funds in its treasury for as long as any Bonds remain unpaid. From time to time District may deposit amounts in the Rate Stabilization Fund, in such amounts as District may determine, from Unrestricted Fund Balances and/or Surplus Revenues.

(b) Permitted Uses of Rate Stabilization Fund Moneys. The District may use amounts on deposit in the Rate Stabilization Fund to pay Maintenance and Operation Expenses. Moneys on deposit in the Rate Stabilization Fund shall not be used to pay Debt Service or amounts necessary to replenish: (1) the Reserve Fund; or (2) any Parity Reserves.

(c) Maintenance of Rate Stabilization Fund at Minimum Balance. Except as provided in paragraph (d) below, the District further covenants to maintain the Rate Stabilization Fund in an amount of not less than fifty percent (50%) of Maximum Annual Debt Service (the "Rate Stabilization Fund Minimum Balance" or "Minimum Balance").

(d) Circumstances When Fund Balance May Fall Below the Minimum Balance. The District may allow the balance on hand in the Rate Stabilization Fund to fall below the Rate Stabilization Fund Minimum Balance if the District collects Tax Revenues and/or Net Revenues in an amount equal to one hundred twenty-five percent (125%) of Annual Debt Service for each of two consecutive Fiscal Years.

(e) Restoration of Rate Stabilization Fund to Minimum Balance. If the District:

(i) has been permitted to allow funds in the Rate Stabilization Fund to fall below the Rate Stabilization Fund Minimum Balance, as provided in paragraph (d) above; and

(ii) the District does not in any Fiscal Year thereafter collect Charges at least equal to 125% of Debt Service due in that year; then

(iii) the covenant set forth in paragraph (c) above to maintain the Rate Stabilization Fund Minimum Balance shall again become effective on the first day of the next succeeding Fiscal Year (the "Restoration Date"). The District covenants that during the Fiscal Year beginning on any Restoration Date, it shall budget for and appropriate amounts sufficient to, and shall cause the balance in the Rate Stabilization Fund to be restored to an amount equal to the Rate Stabilization Fund Minimum Balance. If the Rate Stabilization Fund Minimum Balance is so restored during such Fiscal Year, the District shall not be deemed to be in default with respect to the covenant set forth in paragraph 4.03(a) for such preceding Fiscal Year.

SECTION 4.04. *Restoration of Reserve Fund.*

(a) If and to the extent amounts are withdrawn from the Reserve Fund to pay debt service on the Bonds, the amount necessary to restore the Reserve Fund to the Reserve Requirement shall be collected and deposited in the Reserve Fund within 30 days after such withdrawal.

(b) If amounts on deposit in the Reserve Fund shall at any time be less than the Reserve Requirement, in the event such deficiency results from a decrease in the market value of the Authorized Investments on deposit in the Reserve Fund, such deficiency shall be made up from the first Net Revenues received after making the required deposits to the Debt Service Fund over a period of not more than four (4) months, in four (4) substantially equal payments.

SECTION 4.05. *Investments.*

(a) Investment of Funds Held by District. All moneys in the Rate Stabilization Fund shall be invested by the District from time to time in any securities in which the District may legally invest funds subject to its control.

(b) Investment of Funds Held by Trustee. The Trustee shall invest moneys in the funds and accounts held by it hereunder in Permitted Investments which will be available on or before the dates when such moneys are needed, as specified in the Request of the District delivered to the Trustee at least two Business Days in advance of the making of such investments. In the absence of any such direction from the District, the Trustee shall invest any such moneys solely in Permitted Investments described in clause (e) of the definition thereof.

(c) General Investment Provisions. Obligations purchased as an investment of moneys in any fund or account shall be deemed to be part of such fund or account. Whenever in this Indenture the District is required to transfer any moneys to the Trustee, such transfer may be accomplished by transferring a like amount of Permitted Investments. All interest or gain derived from the investment of amounts in any of the funds or accounts held by the Trustee hereunder shall be retained in the respective fund or account from which such investment was made; except that the Trustee shall deposit all interest or gain from the investment of amounts in the Reserve Fund in the Debt Service Fund to the extent not required to cause the balance in the Reserve Fund to equal the Reserve Requirement. For purposes of acquiring any investments hereunder, the Trustee may commingle funds held by it hereunder upon receipt by the Trustee of the Request of the District. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee has no liability for losses arising from any investments made under this Section.

The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the District periodic transaction statements which shall include detail for all investment transactions made by the Trustee hereunder.

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

SECTION 4.06. *Valuation and Disposition of Investments.*

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

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

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

(d) For purposes of this Section 4.06, the term "Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the Tax Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, or (iii) the investment is a United States Treasury Security -- State and Local Government Series which is acquired in accordance with applicable regulations of the United States Bureau of Public Debt.

ARTICLE V

FINANCIAL COVENANTS

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

SECTION 5.02. *Discharge of Claims.* The District covenants that in order to fully preserve and protect the priority and security of the Bonds the District shall pay from the Tax Revenues or the Net Revenues and discharge all lawful claims for labor, materials and supplies which, if unpaid, may become a lien or charge upon the Tax Revenues or the Net Revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The District shall also pay, from the Tax Revenues or the Net Revenues, all taxes and assessments or other governmental charges lawfully levied or assessed upon the District to the extent such taxes, assessments or other governmental charges may lawfully be paid from Tax Revenues or Net Revenues.

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

SECTION 5.04. *Sale or Eminent Domain of District Facilities.* Except as provided herein, the District covenants that the District's facilities will not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed 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 any Parity Debt Service, or would materially adversely affect its ability to comply with the terms of this Indenture and any Parity Obligation Instruments.

If any substantial part of the District's facilities is sold, the payment therefor must either (a) be used for the acquisition or construction of improvements and extensions or replacement facilities or (b) be applied to redeem any Parity Obligations in accordance with the related Parity Obligation Instruments.

Any amounts received as awards as a result of the taking of all or any part of the District's facilities 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 either (a) be used for the acquisition or construction of improvements and extension of the District's facilities, or (b) be applied to redeem any Parity Obligations in accordance with the related Parity Obligation Instruments.

SECTION 5.05. *Insurance.* The District will at all times maintain with responsible insurers all such insurance on the District's facilities as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the District's facilities. If any useful part of the District's facilities is damaged or destroyed, such part must be restored to usable condition. All amounts collected from insurance

against accident to or destruction of any portion of the District's facilities shall be used to repair or rebuild such damaged or destroyed portion of the District's facilities, and to the extent not so applied, shall be applied to redeem any Parity Obligations in accordance with the related Parity Obligation Instruments. The District shall also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the District, the Trustee and the Owners of the Bonds. The Trustee has no liability to determine whether the District is in compliance with the provisions of this Section 5.05.

SECTION 5.06. *Records and Accounts.* The District will keep proper books of record and accounts, in which complete and correct entries shall be made of all transactions. Said books shall, upon reasonable request, be subject to the inspection of the Trustee (who shall have no duty to inspect) and the Owners of not less than 10% of the Outstanding Bonds or their representatives authorized in writing.

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

SECTION 5.07. *Rates and Charges.*

(a) The District covenants that in each Fiscal Year, to the maximum extent permitted by law, it shall annually fix and collect Charges for water, recycled water and sewer services which, after allowance for contingencies and error in estimates, shall be at least sufficient to provide Net Revenues which, when added to Tax Revenues, shall equal at least the Rate Covenant Percentage (as defined below) of the sum of:

(i) Debt Service and Governmental Loan Payments due in the Fiscal Year during which such Tax Revenues and Net Revenues will be collected; and

(ii) any required deposits to the Reserve Fund (as set forth in Section 4.04) and to any Parity Reserves.

(b) As used herein, the term "Rate Covenant Percentage" means:

(i) 100%, so long as the amounts on hand in the Rate Stabilization Fund are at least equal to the Rate Stabilization Fund Minimum Balance; and

(ii) 125%, if funds on hand in the Rate Stabilization Fund do not equal or exceed the Rate Stabilization Fund Minimum Balance.

SECTION 5.08. *Tax Covenants Relating to Bonds.*

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

(b) Private Activity Bond Limitation. The District shall assure that the proceeds of the Bonds are not used in a manner that would cause the Bonds to become "private

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activity bonds” within the meaning of section 141(a) of the Tax Code or to meet the private loan financing test of Section 141(c) of the Tax Code.

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

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

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

The Trustee has no duty to monitor the compliance by the District with any of the covenants contained in this Section 5.08.

SECTION 5.09. *Refunding of 2003 Installment Payments.* The District shall cause the proceeds of the Bonds to be applied to the payment and prepayment of the 2003 Installment Payments in accordance with the provisions of the 2003 Installment Purchase Agreement and the Escrow Agreement. From and after the Closing Date, the District’s obligations under the 2003 Installment Purchase Agreement shall be fully discharged, and the 2003 Installment Payments shall no longer be secured by a pledge of or lien on the Tax Revenues or the Net Revenues.

SECTION 5.10. *Continuing Disclosure.* The District will comply with and carry out all of the provisions of the Continuing Disclosure Certificate that has been executed and delivered by the District on the Closing Date. Notwithstanding any other provision hereof, failure of the District to comply with the Continuing Disclosure Certificate does not constitute an Event of Default hereunder; *provided, however,* that any Participating Underwriter (as such term is defined in the Continuing Disclosure Certificate) or any Owner or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the District to comply with its obligations under this Section 5.10.

SECTION 5.11. *Further Assurances.* The District will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture, and for the better assuring and confirming unto the Owners of the Bonds and the Trustee the rights and benefits provided in this Indenture.

ARTICLE VI

THE TRUSTEE

SECTION 6.01. *Duties, Immunities and Liabilities of Trustee.*

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

(b) Removal of Trustee. The District may remove the Trustee at any time, and shall remove the Trustee (i) if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or (ii) if at any time the Trustee ceases to be eligible in accordance with subsection (e) of this Section 6.01, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property is appointed, or any public officer takes control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation. The District may accomplish such removal by giving 30 days written notice to the Trustee, whereupon the District will appoint a successor Trustee by an instrument in writing.

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

(d) Appointment of Successor Trustee. Any removal or resignation of the Trustee and appointment of a successor Trustee becomes effective upon acceptance of appointment by the successor Trustee. If no successor Trustee has been appointed and accepted appointment within 45 days following giving notice of removal or notice of resignation as aforesaid, the resigning Trustee, any Owner (on behalf of such Owner and all other Owners) may petition any federal or state court for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture shall signify its acceptance of such appointment by executing and delivering to the District and to its predecessor Trustee a written acceptance thereof, and to the predecessor Trustee an instrument indemnifying the predecessor Trustee for any costs or claims arising during the time the successor Trustee serves as Trustee hereunder, and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless, upon the receipt by the predecessor Trustee of the Request of the District

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or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the District will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the District shall mail or cause the successor Trustee to mail, by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts hereunder to each rating agency which then maintains a rating on the Bonds, and to the Owners at the addresses shown on the Registration Books. If the District fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the District.

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

- (i) be a company or bank having trust powers,
- (ii) have a corporate trust office in the State of California,
- (iii) have (or be part of a bank holding company system whose bank holding company has) a combined capital and surplus of at least \$75,000,000, and
- (iv) be subject to supervision or examination by federal or state authority.

If such bank or company publishes a report of condition at least annually, under law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign promptly in the manner and with the effect specified in subsection (c) of this Section.

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

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

SECTION 6.03. *Rights and Liabilities of Trustee.*

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

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

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

(d) The Trustee will not be deemed to have knowledge of any Event of Default hereunder unless and until a responsible officer of the Trustee has actual knowledge thereof, or unless and until a responsible officer of the Trustee has received written notice thereof at its Office. Except as otherwise expressly provided herein, the Trustee is not bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default hereunder or thereunder. The Trustee is not responsible for the District's payment of principal and interest on the Bonds, the District's observance or performance of any other covenants, conditions or terms contained herein, or the validity or effectiveness of any collateral given to or held by it. Without limiting the generality of the foregoing, and notwithstanding anything herein to the contrary, the Trustee is not responsible for reviewing the contents of any financial statements furnished to the Trustee under Section 5.06 and may rely conclusively on a Certificate of the District (if any) to establish the District's compliance with its financial covenants hereunder.

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

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

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

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

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

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

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

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

(m) The Trustee shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of delay in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee

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

full and complete authorization and protection in respect of any action taken or suffered by the Trustee hereunder in accordance therewith.

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

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

The Trustee agrees to accept and act upon facsimile transmission of written instructions and/or directions under this Indenture provided, however, that: (a) subsequent to such facsimile transmission of written instructions and/or directions the Trustee shall forthwith receive the originally executed instructions and/or directions, (b) such originally executed instructions and/or directions shall be signed by a person as may be designated and authorized to sign for the party signing such instructions and/or directions, and (c) the Trustee has received a current incumbency certificate containing the specimen signature of such designated person

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

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

The District further covenants and agrees to indemnify and save the Trustee and its officers, directors, agents and employees, harmless from and against any loss, expense and liabilities, whether or not litigated, which it may incur arising out of or in the exercise and performance of its powers and duties hereunder, including the costs and expenses of defending against any claim of liability and of enforcing any remedies hereunder and under any related documents, but excluding any and all losses, expenses and liabilities which are due to the negligence or willful misconduct of the Trustee, its

officers, directors, agents or employees. The obligations of the District under this Section 6.06 shall survive resignation or removal of the Trustee under this Indenture and payment of the Bonds and discharge of this Indenture.

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

ARTICLE VII

MODIFICATION AND AMENDMENT OF THIS INDENTURE

SECTION 7.01. Amendments Permitted.

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

(i) extend the maturity of any Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the District to pay the principal thereof or interest thereon at the time and place and at the rate and in the currency provided therein, without the written consent of the Owner of such Bond, or

(ii) permit the creation by the District of any mortgage, pledge or lien upon the Revenues, the Tax Revenues or the Net Revenues superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as expressly permitted by this Indenture), or reduce the percentage of Bonds required for the affirmative vote or written consent to an amendment or modification, or

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

(b) Amendment Without Bond Owner Consent. This Indenture and the rights and obligations of the District and of the Owners of the Bonds may also be modified or

amended at any time by a Supplemental Indenture, without the consent of any Owners of the Bonds, for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the District contained in this Indenture, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power herein reserved to or conferred upon the District;
 - (ii) to cure any ambiguity, or to cure, correct or supplement any defective provision contained in this Indenture, or in any other respect whatsoever as the District deems necessary or desirable, provided under any circumstances that such modifications or amendments do not materially adversely affect the interests of the Owners in the opinion of Bond Counsel filed with the District and the Trustee;
 - (iii) to provide for the issuance of Parity Obligations under Section 3.05, and to provide the terms and conditions under which such Parity Obligations may be issued, including but not limited to the establishment of special funds and accounts relating thereto and any other provisions relating solely thereto, subject to and in accordance with the provisions of Section 3.05; and
 - (iv) to provide for the issuance of Additional Governmental Loans under Section 3.06, and to provide the terms and conditions under which such Additional Governmental Loans may be issued, including but not limited to the establishment of special funds and accounts relating thereto and any other provisions relating solely thereto, subject to and in accordance with the provisions of Section 3.06; and
 - (v) to amend any provision hereof to assure the exclusion from gross income of interest on the Bonds for federal income tax purposes under the Tax Code, in the opinion of Bond Counsel filed with the District and the Trustee.
- (c) Notice of Amendments. The District shall deliver or cause to be delivered a draft of any Supplemental Indenture to Moody's and S&P, at least 10 days prior to the effective date of such Supplemental Indenture under this Section 7.01.

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

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

shall be made on such Bonds. In lieu of such notation, the District may determine that new Bonds shall be prepared and executed in exchange for any or all of the Bonds and in that case upon demand of the District the Owners of the Bonds shall present such Bonds for exchange at the Office of the Trustee without cost to such Owners.

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

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

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS

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

(a) Failure to pay any installment of the principal of any Bonds when due, whether at maturity as therein expressed, by proceedings for acceleration or otherwise.

(b) Failure to pay any installment of interest on the Bonds when due.

(c) Failure by the District to observe and perform any of the other covenants, agreements or conditions on its part contained in this Indenture or in the Bonds, if such failure has continued for a period of 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 any Parity Obligation Instruments.

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

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

Immediately upon becoming aware of the occurrence of an Event of Default, but in no event later than five Business Days following becoming aware of such occurrence, the Trustee shall give notice of such Event of Default to the District by telephone confirmed in writing. Such notice shall also state whether the principal of the Bonds has been declared to be or have immediately become due and payable. With respect to any Event of Default described in clauses (a) or (b) above the Trustee shall, and with respect to any Event of Default described in clause (c) above the Trustee in its sole discretion may, also give such notice to the Bond Owners by first-class mail at their respective addresses set forth on the Registration Books, which shall include the statement that interest on the Bonds shall cease to accrue from and after the date, if any, on which the Trustee declares the Bonds to become due and payable under the preceding paragraph (but only to the extent that principal and any accrued, but unpaid, interest on the Bonds is actually paid on such date).

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

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

(a) *First*, to the payment of any fees, costs and expenses incurred by the Trustee to protect the interests of the Owners of the Bonds; payment of the fees, costs and expenses of the Trustee (including fees and expenses of its counsel, including any allocated costs of internal counsel) incurred in and about the performance of its powers and duties under this Indenture and the payment of all fees, costs and expenses owing to the Trustee under Section 6.06, together with interest on all such amounts advanced by the Trustee at the maximum rate permitted by law.

(b) *Second*, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on such overdue amounts

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

SECTION 8.03. *Power of Trustee to Control Proceedings.* If the Trustee, upon the happening of an Event of Default, takes any action, by judicial proceedings or otherwise, in the performance of its duties hereunder, whether upon its own discretion, 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 hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

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

(a) said Owner has previously given to the Trustee written notice of the occurrence of an Event of Default;

(b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding have requested the Trustee in writing to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name;

(c) said Owners have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and

(d) the Trustee has failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee.

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

The right of any Owner of any Bond to receive payment of the principal of and premium, if any, and interest on such Bond as herein provided, shall not be impaired or

affected without the written consent of such Owner, notwithstanding the foregoing provisions of this Section or any other provision of this Indenture.

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

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

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

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

SECTION 8.07. *Remedies Not Exclusive.* No remedy herein conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Bond Law or any other law.

ARTICLE IX

MISCELLANEOUS

SECTION 9.01. *Benefits of Indenture Limited to Parties.* Nothing in this Indenture, expressed or implied, gives to any person other than the District and the Owners of the Bonds, any right, remedy or claim under or by reason of this Indenture. Any covenants, stipulations, promises or agreements in this Indenture contained by and on behalf of the District shall be for the sole and exclusive benefit of the Trustee and the Owners of the Bonds.

SECTION 9.02. *Defeasance of Bonds.* If the District pays and discharges the entire indebtedness on any Bonds in any one or more of the following ways:

(a) by paying or causing to be paid the principal of and interest on such Bonds, as and when the same become due and payable;

(b) by irrevocably depositing with the Trustee or an escrow bank, in trust, at or before maturity, an amount of cash which, together with the available amounts then on deposit in the funds and accounts established under this Indenture, is fully sufficient to pay such Bonds, including all principal thereof and interest thereon;

(c) by irrevocably depositing with the Trustee or an escrow bank, in trust, Federal Securities in such amount as an Independent Accountant determines will, together with the interest to accrue thereon and available moneys then on deposit in any of the funds and accounts established under this Indenture, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal thereof and interest thereon); or

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

then, at the election of the District, and notwithstanding that any such Bonds have not been surrendered for payment, the pledge of the Tax Revenues and the Net Revenues and other funds provided for in this Indenture and all other obligations of the Trustee and the District under this Indenture with respect to such Bonds shall cease and terminate, except only:

(a) the obligations of the District under Section 5.08,

(b) the obligation of the Trustee to transfer and exchange Bonds hereunder,

(c) the obligation of the District to pay or cause to be paid to the Owners of such Bonds, from the amounts so deposited with the Trustee, all sums due thereon, and

(d) the obligations of the District to compensate and indemnify the Trustee under Section 6.06.

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

In the case of a defeasance or payment of all of the Bonds Outstanding in accordance with this Section 9.02, the Trustee shall pay all amounts held by it in any funds or accounts hereunder, which are not required for said purpose or for payment of amounts due the Trustee under Section 6.06, to the District.

SECTION 9.03. *Execution of Documents and Proof of Ownership by Owners.* Any request, consent, declaration or other instrument which this Indenture may require or permit to be executed by any Owner may be in one or more instruments of similar tenor, and shall be executed by such Owner in person or by their attorneys appointed in writing.

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

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

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

SECTION 9.04. *Disqualified Bonds.* In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, Bonds which are owned or held by or for the account of the District (but excluding Bonds held in any employees' retirement fund) must be disregarded and deemed not to be Outstanding for the purpose of any such determination. The Trustee will not be deemed to have knowledge that any Bond is owned or held by the District unless the District is the Registered Owner or the Trustee has received written notice to that effect.

SECTION 9.05. *Waiver of Personal Liability.* No member, officer, agent or employee of the District shall be individually or personally liable for the payment of the principal of or interest or any premium on the Bonds; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

SECTION 9.06. *Destruction of Canceled Bonds.* Whenever in this Indenture provision is made for the surrender to the District of any Bonds which have been paid or canceled under the provisions of this Indenture, a certificate of destruction duly executed by the Trustee shall be deemed to be the equivalent of the surrender of such canceled Bonds and the District shall be entitled to rely upon any statement of fact contained in any certificate with respect to the destruction of any such Bonds therein referred to. The District shall pay all costs of any microfilming of Bonds to be destroyed.

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SECTION 9.07. *Funds and Accounts.* Any fund or account required by this Indenture to be established and maintained by the District or the Trustee may be established and maintained in the accounting records of the District or the Trustee, as the case may be, either as a fund or an account, and may, for the purpose of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account. All such records with respect to all such funds and accounts held by the District shall at all times be maintained in accordance with generally accepted accounting principles and all such records with respect to all such funds and accounts held by the Trustee shall be at all times maintained in accordance with corporate trust industry practices; in each case with due regard for the protection of the security of the Bonds and the rights of every Owner thereof.

SECTION 9.08. *Notices.* All written notices to be given under this Indenture shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or at such address as the party may provide to the other party in writing from time to time. The District or the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

If to the District:

Moulton Niguel Water District
27500 La Paz Road
Laguna Niguel, California 92677
Attention: General Manager
Fax: 949-831-1921

If to the Trustee:

U.S. Bank National Association
Attn: Corporate Trust Services
633 West Fifth Street, 24th Floor
LM-CA-T24T
Los Angeles, CA 90071
Fax: 213-615-6199

SECTION 9.09. *Unclaimed Moneys.* Anything contained herein to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or premium (if any) on or principal of the Bonds which remains unclaimed for two years after the date when the payments of such interest, premium and principal have become payable, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with the Trustee after the date when the interest and premium (if any) on and principal of such Bonds have become payable, shall be repaid by the Trustee to the District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of the principal of and interest on such Bonds.

SECTION 9.10. *Execution in Several Counterparts.* This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the District and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

SECTION 9.11. *Governing Law.* This Indenture shall be governed by and construed in accordance with the laws of the State of California.

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IN WITNESS WHEREOF, the Moulton Niguel Water District has caused this Indenture to be signed in its name by its General Manager, and its seal to be affixed hereon and attested by its Secretary, and U.S. Bank National Association, in token of its acceptance of the trust created hereunder, has caused this Indenture to be signed in its corporate name by its officer identified below, all as of the day and year first above written.

MOULTON NIGUEL WATER DISTRICT

By _____
General Manager

Attest:

Secretary

**U.S. BANK NATIONAL ASSOCIATION, as
Trustee**

By _____
Authorized Officer

APPENDIX A

DEFINITIONS

“Additional Obligations” means all bonds, certificates of participation, notes or other obligations hereafter issued or entered into by District, payable out of the Tax Revenues and/or the Net Revenues and which, as provided in this Indenture, a Parity Obligation Instrument, or any subsequent indenture or similar instrument or document of District, rank on a parity with the Parity Obligations.

“Additional Governmental Loans” means all loans hereafter issued or entered into by District, payable out of the Tax Revenues and/or the Governmental Loans Pledged Revenues and which, as provided in this Indenture, a Governmental Loan Instrument, or any subsequent loan agreement, indenture or similar instrument or document of District, rank on a parity with the Governmental Loans.

“Annual Debt Service” means Debt Service due in any Bond Year.

“Annual Parity Debt Service” means Parity Debt Service due in the applicable Bond Year.

“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 Law” means the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code, as in effect on the Closing Date or as thereafter amended in accordance with its terms.

“Bond Year” means any twelve-month period commencing on September 2 in a year and ending on the next succeeding September 1, both dates inclusive; except that the first Bond Year commences on the Closing Date and ends on September 1, 2015.

“Bonds” means the Moulton Niguel Water District 2015 Revenue Refunding Bonds issued and at any time Outstanding.

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

“Certificate of the District” means a certificate in writing signed by the President, the General Manager, the Assistant General Manager or the Director of Finance/Treasurer of the District, or any other officer of the District duly authorized by the Board of Directors for that purpose.

“Charges” means all rates, fees (including capital facility connection and capacity fees, to the extent permitted by and in accordance with law), charges, standby charges

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(other than those standby charges levied pursuant to California Water Code Sections 36425 and 35506 and pledged to debt service on the District's outstanding general obligation bonds and any additional general obligation bonds to be issued in the future), assessments and other moneys derived by the District from the sale, furnishing and supplying of water, recycled water and sewer or other services furnished or supplied through the facilities of, or in the conduct or operation of, the water, recycled water and sewer systems of the District.

"Closing Date" means the date of delivery of the Bonds to the Original Purchaser.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the District relating to the authorization, issuance, sale and delivery of the Bonds and the current refunding of the 2003 Installment Payments and the discharge of the 2003 Agreement and the 2003 Certificates, including but not limited to printing expenses, rating agency fees, filing and recording fees, initial fees, expenses and charges of the Trustee and its counsel, fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, and any other cost, charge or fee in connection with the original issuance of the Bonds and the current refunding of the 2003 Installment Payments and the discharge of the 2003 Agreement and the 2003 Certificates.

"Costs of Issuance Fund" means the fund by that name established and held by the Trustee under Section 3.03.

"Debt Service" means, for any period, the sum obtained by totaling the following amounts due in such period:

- (a) the principal of and interest on the Outstanding Bonds; and
- (b) Parity Debt Service.

"Debt Service Fund" means the fund by that name established and held by the Trustee under Section 4.02.

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

"Depository System Participant" means any participant in the Depository's book-entry system.

"District" means the Moulton Niguel Water District, a California water district organized and existing under Section 34000 et seq. of the California Water Code, and any successor thereto.

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

"Escrow Agreement" means the Escrow Deposit and Trust Indenture dated as of the Closing Date, between the District and U.S. Bank National Association, as 2003 Trustee, relating to the payment and prepayment of the 2003 Installment Payments and

the discharge of the District's obligations under the 2003 Agreement and the 2003 Certificates.

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

"Federal Securities" means any of the following which at the time of investment are legal investments under the laws of the State of California for the funds purported to be invested therein: (a) direct general 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) obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully secured or guaranteed by the full faith and credit of the United States of America.

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

"Governmental Loans" means (i) State Revolving Fund Loans designated "Phase III Recycled Water SRF Loan Nos. C-06-4150-110 and C-06-4150-130" and "Phase IV Recycled Water SRF Loan No. C-06-4150-120" ("SRF Loans"), (ii) State of California Department of Water Resources Water Conservation Loan Program Contract E62040 (the "DWR Loan"; and (iii) any Additional Governmental Loans entered into by the District pursuant to Section 3.06(b).

"Governmental Loan Instruments" means loan documents under which the Governmental Loans outstanding on the Closing Date were incurred, and any other resolution, agreement, capital lease, installment sale agreement, indenture, trust agreement, loan agreement or other instrument under which any future Governmental Loans are issued or incurred.

"Governmental Loan Payments" means, for any period, the sum of all of the payments due under Governmental Loans in such period.

"Governmental Loans Pledged Revenues" means: (1) Tax Revenues; and (2) those Revenues consisting of revenues received by the District from sales of recycled water, rebate payments received by the District from Metropolitan Water District pursuant to Metropolitan Water District Local Projects Program and revenues received by the District from wastewater service charges.

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

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

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“Independent Consultant” means a consultant or firm of such consultants appointed by the District and who, or each of whom is judged by the District to have experience in matters relating to the collection of Revenues or other experience with respect to the financing of the Project, as appropriate and who, or each of whom:

- (1) is independent of the District;
- (2) does not have any substantial interest, direct or indirect in the District; and
- (3) is not connected with the District as an officer or employee of the District, but who may be regularly retained to make annual or other reports to the District.

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

“Maintenance and Operation Expenses” means the reasonable and necessary costs spent or incurred by District for maintaining and operating water, recycled water and sewer systems, calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve such systems in good repair and working order, lease or sublease payments paid by District in connection with the 1989 \$34,495,000 (original principal amount) Municipal Water District of Orange County, Water Facilities Corporation Adjustable/Fixed Rate Certificates of Participation (Allen-McColloch Pipeline Flow Augmentation Project) Series A-D of said Corporation, and including but not limited to administrative costs of District, salaries and wages of employees, payments to any employee retirement plan, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or engineers, and necessary costs of or charges required to be paid by it to comply with the terms of the Bonds or of this Indenture, including any amounts required to be paid to the United States of America pursuant to Section 5.08; but excluding in all cases (i) depreciation, replacements and obsolescence charges or reserves therefor, (ii) amortization of intangibles or other bookkeeping entries of a similar nature, (iii) costs of capital additions, replacements, betterments, extensions or improvements to the District water, recycled water and sewer systems, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, and (iv) charges or assessments for the payment of principal, premium, if any, and interest on any general obligation bonds heretofore or hereafter issued for the water, recycled water and/or sewer system purposes.

“Maximum Annual Debt Service” means as of the date of calculation, the maximum amount of debt service on the Bonds, Governmental Loan Payments, and Parity Debt Service due in any Certificate Year prior to the final maturity of the Bonds, and for purposes of: (1) Section 3.05, includes the maximum amount of Debt Service due on any Additional Obligations subsequent to the issuance of such Additional Obligations; and (ii) Section 3.06, includes the maximum amount of Governmental Loan Payments due on any Additional Governmental Loans subsequent to the issuance of such Additional Governmental Loans.

“Net Revenues” means Revenues less Maintenance and Operation Expenses.

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

“Non-Operating Revenues” means rents, insurance and condemnation proceeds, amounts appropriated from the Rate Stabilization Fund, the Refundable Credits, and other moneys (other than Operating Revenues) received by the District in connection with the water, recycled water and sewer systems, and the proceeds derived by the District directly or indirectly from the sale, lease or other disposition of any part of, or rights, in the District’s water, recycled water and sewer systems. *This definition is amended in the manner and in the circumstances set forth in Section 3.07.*

“Office” means, with respect to the Trustee, the corporate trust office of the Trustee at the address set forth in Section 9.08, or at such other or additional offices as may be specified by the Trustee in writing to the District; except that for purposes of payment, exchange, transfer, surrender and cancellation of Bonds, such term means the corporate trust office of the Trustee in St. Paul, Minnesota.

“Operating Revenues” means revenues received by the District from the levy and collection of Charges.

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

“Outstanding”, when used as of any particular time with reference to Bonds, means all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the District has been discharged in accordance with Section 9.02; (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee under this Indenture; and (d) Bonds which are required to be disregarded and not deemed Outstanding under Section 9.04.

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

“Parity Debt Service” means, for any Fiscal Year, the sum of:

(1) the interest due and payable during such Fiscal Year for all outstanding Parity Obligations, assuming that principal thereof is paid as scheduled and that any mandatory sinking fund payments on any Parity Obligations are made as scheduled;

(2) that portion of the principal amount due on all outstanding Parity Obligations maturing during such Fiscal Year;

(3) that portion of the principal amount of all such outstanding Parity Obligations required to be redeemed or paid (together with the redemption or prepayment premiums, if any, thereof) during such Fiscal Year; and

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(4) any fees payable during such Fiscal Year under the Parity Obligation Instruments.

“Parity Obligations” means (i) the 2010 Installment Sale Agreement, (ii) the 2009 Installment Sale Agreement; (iii) the Bonds; (iv) California Infrastructure Development Bank (CIEDB) Enterprise Fund Installment Sale Agreements 01-020 and 02-026 (“CIEDB Agreements”); and, (v) the Additional Obligations issued under Section 3.05(b).

“Parity Obligation Instruments” means the 2010 Installment Sale Agreement, the 2009 Installment Sale Agreement, this Indenture and any other resolution, agreement, capital lease, installment sale agreement, indenture, trust agreement or other instrument under which any Additional Obligation is issued or incurred under Section 3.05(b).

“Parity Reserves” means the reserve funds funded or required to be funded, or any credit instrument in lieu thereof as permitted by a Parity Obligation Instrument, for the Parity Obligations pursuant to Section 3.05 of this Agreement.

“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 either (a) represent full faith and credit of the United States of America, or (b) are rated “AA” or better 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.

“Rate Stabilization Fund” means that certain fund established and maintained within District’s treasury in accordance with District Resolution No. 91-47, adopted July 18, 1991, as amended by District Resolution No. 93-33, adopted October 21, 1993, as amended by District Resolution No. 06-03, adopted May 18, 2006.

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

“Refundable Credits” means all payments received by the District from the U.S. Department of Treasury as the tax credit equal to 35% of the interest component of the Parity Obligations related to the 2009 Certificates, as provided for in Sections 54AA(b) and 6431 of the Code.

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

“Request of the District” means a request in writing signed by the President, the General Manager or the Director of Finance/Treasurer of the District, or any other officer of the District duly authorized by the District Council for that purpose.

“Reserve Fund” means the Fund by that name established and held by the Trustee pursuant to Section 3.04.

“Reserve Requirement” means, as of any date of calculation, an amount equal to the lowest of: (i) Maximum Annual Debt Service on the Bonds; (ii) ten percent (10%) of the principal amount of the Outstanding Bonds; or (iii) 125% of Average Annual Debt Service on the Bonds.

“Revenues” means (i) Operating Revenues, (ii) Non-Operating Revenues, and (iii) the earnings on, and income derived from, the investment of Operating Revenues and Non-Operating Revenues.

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

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

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

“Surplus Revenues” are those monies available after payment of Maintenance and Operation Expenses, debt service on the Bonds, payments with respect to Parity Obligations, amounts due to the Trustee under this Indenture (and similar amounts payable to trustees under Parity Obligation Instruments) and any amounts required for replenishment of the Reserve Fund or any Parity Reserves.

“Tax Code” means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced herein) as it may be amended to apply to

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obligations issued on the Closing Date, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under said Code.

“Tax Revenues” means the amount of property tax revenues (as defined in Section 95 of the Revenue and Taxation Code of the State of California) apportioned, allocated and paid by the Orange County Tax Collector to District pursuant to Section 75.70 and Chapter 6 (commencing with Section 95) of Part 0.5 of Division 1 of the Revenue and Taxation Code of the State of California, as amended from time to time). *This definition is deleted in the circumstances set forth in Section 3.07.*

“Trustee” means U.S. Bank National Association, as Trustee hereunder, or any successor thereto appointed as Trustee under Article VI.

“2003 Agreement” means the Installment Sale Agreement dated as of August 1, 2003 between the District and the Corporation.

“2003 Certificates” means the \$25,145,000 2003 Refunding Certificates of Participation executed for the benefit of the District.

“2003 Installment Payments” means the installment payments that the District is obligated to make under the 2003 Agreement.

“2003 Trust Indenture” means the Trust Indenture dated as of August 1, 2003 among the 2003 Trustee, the District and the Corporation.

“2003 Trustee” means U.S. Bank National Association as trustee for the 2003 Certificates.

“2009 Certificates” means the \$60,000,000 2003 Certificates of Participation.

“2009 Installment Sale Agreement” means the Installment Sale Agreement dated as of December 1, 2009 between the District and the Corporation.

“2009 Trust Indenture” means the Trust Indenture dated as of December 1, 2009 by and among the District, Moulton Niguel Water District Public Facilities Corporation and U.S. Bank National Association, as trustee, relating to the 2009 Certificates.

“2010 Certificates” means the \$8,965,000 2010 Certificates of Participation (1993 Refunding).

“2010 Installment Sale Agreement” means the Installment Sale Agreement dated as of November 1, 2010 between the District and the Corporation.

“2010 Trust Indenture” means the Trust Indenture dated as of November 1, 2010 by and among the District, Moulton Niguel Water District Public Facilities Corporation and U.S. Bank National Association, as trustee, relating to the 2010 Certificates.

“Unrestricted Fund Balances” means those funds within the District treasury, or held on behalf of District, not set aside, pledged or otherwise restricted to a specific defined purpose and which, pursuant to general accounting principles, and in accordance with

applicable law, may be used by District to pay Maintenance and Operation Expenses and to satisfy its obligations arising under this Agreement and any Parity Obligation Instrument.

**APPENDIX B
FORM OF BOND**

No. R-__

\$

**MOULTON NIGUEL WATER DISTRICT
2015 REVENUE REFUNDING BOND**

INTEREST RATE: _____% **MATURITY DATE:** September 1, ____ **ISSUE DATE:** **CUSIP:**

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT:

The Moulton Niguel Water District, a California water district organized and existing under Section 34000 et seq. of the California Water Code (the "District") for value received, hereby promises to pay (but only out of the Tax Revenues, Net Revenues and other assets pledged therefor as hereinafter mentioned) to the Registered Owner stated above, or registered assigns, on the Maturity Date stated above, the Principal Amount stated above, in lawful money of the United States of America; and to pay interest thereon in like lawful money from the Interest Payment Date next preceding the date of authentication of this Bond (unless this Bond is authenticated as of a day during the period commencing after the fifteenth day of the month preceding an Interest Payment Date and ending on or before such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless this Bond is authenticated on or before August 15, 2015, in which event it shall bear interest from the Issue Date stated above) until payment of such principal sum shall be discharged as provided in the Indenture hereinafter mentioned, at the Interest Rate per annum stated above, payable semiannually on each March 1 and September 1, commencing September 1, 2015 (each, an "Interest Payment Date").

The principal hereof is payable by check at the Office (as defined in the Indenture referred to below) of U.S. Bank National Association. (together with any successor trustee under the Indenture, the "Trustee"). Interest hereon is payable by check of the Trustee mailed on each Interest Payment Date to the Registered Owner as of the 15th day of the month preceding each Interest Payment Date (except with respect to payment of defaulted interest as provided in the Indenture hereinafter referred to) at the address shown on the registration books maintained by the Trustee. Payment of interest will be made by wire transfer in immediately available funds to an account in the United States of America to

any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more who shall furnish written wire instructions to the Trustee before the 15th day of the month preceding the applicable Interest Payment Date.

This Bond is one of a duly authorized issue of bonds of the District designated as its "Moulton Niguel Water District 2015 Revenue Refunding Bonds" (the "Bonds"), in the aggregate principal amount of \$_____, authorized under Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code (the "Bond Law"), and issued under an Indenture of Trust, dated as of June 1, 2015 (the "Indenture"), between the District and the Trustee. The Bonds have been issued for the purpose of refinancing certain obligations of the District incurred to refinance outstanding obligations of the District that were incurred to finance the acquisition of certain water, recycled water and sewer facilities improvements.

The Bonds are not subject to redemption prior to their scheduled maturity dates.

Reference is hereby made to the Indenture (a copy of which is on file at said Office of the Trustee) and all indentures supplemental thereto and to the Bond Law for a description of the rights thereunder of the owners of the Bonds, of the nature and extent of the security, of the rights, duties and immunities of the Trustee and of the rights and obligations of the District thereunder. The Registered Owner of this Bond, by acceptance hereof, assents and agrees to all the provisions of the Indenture.

Except as described below, the Bonds and the interest thereon are payable from, first, Tax Revenues and, second, Net Revenues of the District (as such terms are defined in the Indenture) and are secured by a pledge and assignment of said Tax Revenues and Net Revenues and by a pledge and assignment of amounts held in the Debt Service Fund and the Reserve Fund established under the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. There are currently outstanding obligations payable on a parity basis from Tax Revenues and Net Revenues, and the District has the right under the Indenture to issue additional obligations on a parity with the Bonds, subject to the specific conditions set forth in the Indenture. At such time as the currently outstanding obligations described in the previous sentence are no longer outstanding, certain amendments described in the Indenture will take effect with no further notice or consent required. The Bonds are special obligations of the District and are not a lien or charge upon the funds or property of the District, except to the extent of the aforesaid pledge and assignment.

The Bonds are issuable as fully registered Bonds in denominations of \$5,000 and any integral multiple thereof. Subject to the limitations provided in the Indenture, Bonds may be exchanged, at said Office of the Trustee, for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity.

This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at said office of the Trustee, but only in the manner, subject to the limitations provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer, a new Bond or Bonds, of authorized denomination or denominations, of the same maturity and for the same aggregate principal amount, will be issued to the transferee in exchange herefor. The District and the Trustee may treat the

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Registered Owner hereof as the absolute owner hereof for all purposes, and the District and the Trustee shall not be affected by any notice to the contrary.

The Indenture and the rights and obligations of the District and of the owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time in the manner, to the extent, and upon the terms provided in the Indenture.

Unless this Bond is presented by an authorized representative of The Depository Trust Company to the Trustee for registration or transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co. has an interest herein.

It is hereby certified and recited that any and all things, conditions and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by the Bond Law, and by the constitution and laws of the State of California, and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any limit prescribed by the Bond Law and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

This Bond is not entitled to any benefit under the Indenture, or is not valid or obligatory for any purpose, until the certificate of authentication hereon endorsed has been signed by the Trustee.

IN WITNESS WHEREOF, Moulton Niguel Water District has caused this Bond to be executed in its name and on its behalf by the facsimile signature of the President of the Board of Directors of the District and its seal to be reproduced hereon by facsimile and attested to by the facsimile signature of the Secretary of the District, all as of the Issue Date stated above.

MOULTON NIGUEL WATER DISTRICT

By _____
President

Attest:

Secretary

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Bonds described in the within-mentioned Indenture.

Dated: _____

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By _____
Authorized Signatory

ASSIGNMENT

For value received the undersigned hereby sells, assigns and transfers unto _____ whose address and social security or other tax identifying number is _____, the within-mentioned Bond and hereby irrevocably _____ constitute(s) _____ and _____ appoint(s) _____ attorney, to transfer the same on the registration books of the Trustee with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

Note: Signature(s) must be guaranteed by an eligible guarantor institution.

Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

ESCROW DEPOSIT AND TRUST AGREEMENT

This ESCROW DEPOSIT AND TRUST INDENTURE (this "Agreement"), dated as of June 1, 2015, is between the MOULTON NIGUEL WATER DISTRICT, duly organized and existing as a California water district pursuant to Section 34000 et seq. of the California Government Code (the "District"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, with a corporate trust office in Los Angeles, California, acting as escrow agent for the 2003 Certificates described below (the "Escrow Agent").

BACKGROUND:

1. The District previously entered into an Installment Sale Agreement dated as of August 1, 2003 (the "2003 Agreement") with the Moulton Niguel Water District Public Facilities Corporation (the "Corporation") in connection with the execution and delivery of \$25,145,000 aggregate principal amount of the 2003 Refunding Certificates of Participation (the "2003 Certificates").

2. The proceeds of the 2003 Certificates were used to refinance the acquisition of certain water, recycled water and sewer facilities improvements by refinancing a portion of the District's obligations under an Installment Sale Agreement, dated as of November 1, 1993, and causing a prepayment on a current basis of the Moulton Niguel Water District 1993 Certificates of Participation (the "1993 Certificates").

3. Certain payments (the "2003 Installment Payments") made by the District to the Corporation under the 2003 Agreement were assigned to U.S. Bank National Association, as trustee (the "2003 Trustee") for the 2003 Certificates, for the purpose of paying the principal and interest with respect to the 2003 Certificates.

4. In order to realize debt service savings, the District now desires to prepay the 2003 Installment Payments, thereby causing the prepayment of the 2003 Certificates, and is entitled to do so under the provisions of Section 6.01(a) of the 2003 Agreement and Section 401 of the Trust Indenture, dated as of August 1, 2003, relating to the 2003 Certificates (the "2003 Trust Indenture") among the 2003 Trustee, the Corporation and the District.

5. To that end, the District is issuing its Moulton Niguel Water District 2015 Revenue Refunding Bonds (the "Bonds") under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code (the "Bond Law").

6. The District wishes to appoint the Escrow Agent for the purpose of establishing an irrevocable escrow fund to be funded, invested, held and administered for the purpose of providing for the payment and prepayment of the 2003 Installment Payments in full and, as a result, causing the prepayment in full of the 2003 Certificates.

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7. Section 701 of the 2003 Trust Indenture establishes the following additional conditions for defeasance of the 2003 Certificates (capitalized terms have the meaning given them in the 2003 Trust Indenture): (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Certificate Insurer (“Accountant”) verifying the sufficiency of the escrow established to pay the 2003 Certificates in full on the maturity or Prepayment Date (“Verification”), (ii) an escrow deposit agreement or irrevocable instructions (which shall be acceptable in form and substance to the Certificate Insurer), (iii) an opinion of Special Counsel to the effect that the Certificates are no longer “Outstanding” under this Trust Indenture and (iv) a certificate of discharge of the Trustee with respect to the Certificates, a form of which is attached as Exhibit D. In addition, the District shall have provided the Certificate Insurer with final drafts of the above-referenced documentation prior to the funding of the escrow.

A G R E E M E N T :

In consideration of the premises and the material covenants contained herein, the District and the Escrow Agent hereby agree as follows:

SECTION 1. *Appointment of Escrow Agent; Establishment of Escrow Fund.* The District hereby appoints the Escrow Agent to act as escrow agent for purposes of administering the funds required to prepay the 2003 Installment Payments in full in accordance with Sections 6.01 of the 2003 Agreement, and thereby discharge the District’s obligations under the 2003 Agreement in accordance with Section 10.05 of the 2003 Agreement and Section 7.02 of the 2003 Trust Indenture. The prepayment of the 2003 Installment Payments and the discharge of the District’s obligations under the 2003 Agreement will result in a prepayment of the 2003 Certificates pursuant to Section 401 of the 2003 Trust Indenture and deemed payment of the 2003 Certificates pursuant to Section 701 of the 2003 Trust Indenture

The Escrow Agent is hereby directed to establish an escrow fund (the “Escrow Fund”) to be held by the Escrow Agent as an irrevocable escrow securing the payment and prepayment of the 2003 Installment Payments in accordance with the 2003 Agreement. If at any time the Escrow Agent receives actual knowledge that the cash and securities in the Escrow Fund will not be sufficient to make any payment required by Section 4 in respect of the 2003 Installment Payments, the Escrow Agent shall notify the District of such fact and the District shall immediately cure such deficiency from any source of legally available funds. The Escrow Agent has no liability for any such insufficiency.

SECTION 2. *Deposit of Amounts in Escrow Fund.* On _____, 2015 (the “Closing Date”), the District shall cause to be transferred to the Escrow Agent for deposit into the Escrow Fund the amount of \$_____ in immediately available funds, to be derived from the proceeds of the 2015 Bonds.

Also on the Closing Date, the District shall cause the 2003 Trustee to transfer to the Escrow Agent for deposit in the Escrow Fund the following funds held by the 2003 Trustee under the 2003 Trust Indenture: **[to come]**

SECTION 3. *Investment of Amounts in Escrow Fund.* The Escrow Agent shall invest all amounts on deposit in the Escrow Fund in the State and Local Government Series Securities set forth in Exhibit B.

SECTION 4. *Certificate of 2003 Trustee.* The District hereby requests the 2003 Trustee to execute and deliver on the Closing Date a certificate in substantially the form and substance of the certificate attached hereto as Exhibit D.

SECTION 5. *Application of Amounts in Escrow Fund.* The Escrow Agent shall apply the amounts on deposit in the Escrow Fund to pay and prepay the 2003 Installment Payments and to redeem the 2003 Certificates, in full, as follows:

Payment Date	Interest Payment	Principal Payment	Principal Prepayment	Total Payment
9/1/15				
3/1/16				
9/1/16				

Following the payment and prepayment of the 2003 Installment Payments and the 2003 Certificates in full on September 1, 2016, the Escrow Agent shall transfer any amounts remaining on deposit in the Escrow Fund to U.S. Bank National Association, as trustee for the Bonds, to be applied to pay interest next coming due and payable on the Bonds.

SECTION 6. *Irrevocable Election to Prepay 2003 Installment Payments and 2003 Certificates; Notice of Prepayment; Notice of Defeasance.*

(a) The District hereby irrevocably elects to prepay all of the 2003 Installment Payments and to prepay the 2003 Certificates on September 1, 2016, in accordance with the provisions of Section 401 of the 2003 Trust Indenture.

(b) Notice of prepayment of the 2003 Certificates shall be given by the Escrow Agent, in its capacity as 2003 Trustee, in accordance with Sections 403 and 404 of the 2003 Trust Indenture, at the expense of the District. A copy shall be provided to the Certificate Insurer (as defined in the 2003 Trust Indenture). Such notice shall be in substantially the form attached hereto as Exhibit A.

(c) In addition, the 2003 Trustee is hereby directed to give on the Closing Date a notice of defeasance through the Municipal Securities Rulemaking Board’s EMMA website in the form attached hereto as Exhibit C. A copy shall be provided to the Certificate Insurer and the Rating Agencies, as required by the 2003 Trust Indenture.

SECTION 7. *Compensation to Escrow Agent.* The District shall pay the Escrow Agent full compensation for its services under this Agreement, including out-of-pocket costs such as publication costs, Prepayment expenses, legal fees and other costs and expenses relating hereto and, in addition, all fees, costs and expenses relating to the purchase, substitution or withdrawal of any securities after the date hereof. Under no circumstances shall amounts deposited in or credited to the Escrow Fund be deemed to be available for said purposes. The Escrow Agent has no lien upon or right of set off against the cash and securities at any time on deposit in the Escrow Fund.

The District shall indemnify, defend and hold harmless the Escrow Agent and its officers, directors, employees, representatives and agents, from and against and reimburse the Escrow Agent for any and all claims, obligations, liabilities, losses,

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damages, actions, suits, judgments, reasonable costs and expenses (including reasonable attorneys' and agents' fees and expenses) of whatever kind or nature regardless of their merit, demanded, asserted or claimed against the Escrow Agent directly or indirectly relating to, or arising from, claims against the Escrow Agent by reason of its participation in the transactions contemplated hereby, except to the extent caused by the Escrow Agent's negligence or willful misconduct. The provisions of this Section 7 shall survive the termination of this Agreement or the earlier resignation or removal of the Escrow Agent.

SECTION 8. *Immunities and Liability of Escrow Agent.* The Escrow Agent undertakes to perform only such duties as are expressly set forth in this Agreement and no implied duties, covenants or obligations shall be read into this Agreement against the Escrow Agent. The Escrow Agent shall not have any liability hereunder except to the extent of its gross negligence or willful misconduct. In no event shall the Escrow Agent be liable for any special, indirect or consequential damages. The Escrow Agent shall not be liable for any loss from any investment made by it in accordance with the terms of this Agreement. The Escrow Agent may consult with legal counsel of its own choice and the Escrow Agent shall not be liable for any action taken or not taken by it in good faith in reliance upon the opinion or advice of such counsel. The Escrow Agent shall not be liable for the recitals or representations contained in this Agreement and shall not be responsible for the validity of this Agreement, the sufficiency of the Escrow Fund or the moneys and securities to pay the principal, interest and prepayment premium with respect to the 2003 Installment Payments or the 2003 Certificates.

Whenever in the administration of this Agreement the Escrow Agent deems it necessary or desirable that a matter be proved or established prior to taking or not taking any action, such matter may be deemed to be conclusively proved and established by a certificate of an authorized representative of the District and shall be full protection for any action taken or not taken by the Escrow Agent in good faith reliance thereon.

The Escrow Agent may conclusively rely as to the truth and accuracy of the statements and correctness of any opinions or calculations provided to it in connection with this Agreement and shall be protected in acting, or refraining from acting, upon any notice, instruction, request, certificate, document, opinion or other writing furnished to the Escrow Agent in connection with this Agreement and believed by the Escrow Agent to be signed by the proper party, and it need not investigate any fact or matter stated therein.

None of the provisions of this Agreement shall require the Escrow Agent to expend or risk its own funds or otherwise to incur any liability, financial or otherwise, in the performance of any of its duties hereunder. The Escrow Agent may execute any of the duties or powers hereunder or perform any duties hereunder either directly or by or through agents, attorneys, custodians or nominees appointed with due care, and shall not be responsible for any willful misconduct or negligence on the part of any agent, attorney, custodian or nominee so appointed. The Escrow Agent shall not be liable to the parties hereto or deemed in breach or default hereunder if and to the extent its performance hereunder is prevented by reason of force majeure. The term "force majeure" means an occurrence that is beyond the control of the Escrow Agent and could not have been avoided by exercising due care. Force majeure shall include acts of God, terrorism, war, riots, strikes, fire, floods, earthquakes, epidemics or other similar occurrences.

The Escrow Agent may at any time resign by giving 30 days written notice of resignation to the District. Upon receiving such notice of resignation, the District shall promptly appoint a successor and, upon the acceptance by the successor of such appointment, release the resigning Escrow Agent from its obligations hereunder by written instrument, a copy of which instrument shall be delivered to each of the District, the resigning Escrow Agent and the successor. If no successor shall have been so appointed and have accepted appointment within 30 days after the giving of such notice of resignation, the resigning Escrow Agent may petition any court of competent jurisdiction for the appointment of a successor.

Any bank, corporation or association into which the Escrow Agent may be merged or converted or with which it may be consolidated, or any bank, corporation or association resulting from any merger, conversion or consolidation to which the Escrow Agent shall be a party, or any bank, corporation or association succeeding to all or substantially all of the corporate trust business of the Escrow Agent shall be the successor of the Escrow Agent hereunder without the execution or filing of any paper with any party hereto or any further act on the part of any of the parties hereto except on the part of any of the parties hereto where an instrument of transfer or assignment is required by law to effect such succession, anything herein to the contrary notwithstanding.

The Escrow Agent agrees to accept and act upon instructions or directions pursuant to this Agreement sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Escrow Agent shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the District elects to give the Escrow Agent e-mail or facsimile instructions (or instructions by a similar electronic method) and the Escrow Agent in its discretion elects to act upon such instructions, the Escrow Agent's understanding of such instructions shall be deemed controlling. The Escrow Agent shall not be liable for any losses, costs or expenses arising directly or indirectly from the Escrow Agent's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The District agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Escrow Agent, including without limitation the risk of the Escrow Agent acting on unauthorized instructions, and the risk of interception and misuse by third parties.

SECTION 9. *Termination of Agreement.* Upon payment and prepayment in full of the 2003 Installment Payments and the payment and prepayment in full of the 2003 Certificates, and upon payment of all fees, expenses and charges of the Escrow Agent as described above, this Agreement shall terminate and the Escrow Agent shall be discharged from any further obligation or responsibility hereunder.

SECTION 10. *Execution in Counterparts.* This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

[Signatures on following page]

#3.

SECTION 11. *Applicable Law.* This Agreement shall be governed by and construed in accordance with the laws of the State of California.

MOULTON NIGUEL WATER DISTRICT

By: _____
General Manager

Attest:

Secretary

U.S. BANK, NATIONAL ASSOCIATION,
as Escrow Agent

By _____
Authorized Officer

**ACKNOWLEDGED AND
ACCEPTED:**

U.S. BANK, NATIONAL ASSOCIATION,
as 2003 TRUSTEE

Authorized Officer

EXHIBIT A

NOTICE OF FULL PREPAYMENT TO THE HOLDERS OF

\$25,145,000

(Original Principal Amount)

Moulton Niguel Water District

Refunding Certificates of Participation

Date of Issuance: August 20, 2003

NOTICE IS HEREBY GIVEN that there have been called for full prepayment on September 1, 2016 (the "Prepayment Date") all of the above-captioned certificates of participation (the "Certificates"), as listed below, at a prepayment price equal to the principal amount of the Certificates to be prepaid, without premium ("Prepayment Price"):

<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>	<u>Prepayment Price</u>	<u>CUSIP No.*</u>
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The Certificates are being called pursuant to the prepayment provisions of the Trust Indenture, dated as of August 1, 2003, by and among the Moulton Niguel Water District, the Moulton Niguel Water District Public Facilities Corporation and U.S. Bank National Association, as trustee (the "Trustee"), under which the Certificates were executed and delivered, at the referenced Prepayment Price. On the Prepayment Date, all interest with respect to the Certificates will cease to accrue. Any Certificate to be prepaid will be deemed prepaid on the Prepayment Date whether or not it is delivered to the Trustee.

Holders of the Certificates must present their Certificates to collect the Prepayment Price, at the following addresses: **[to come]**

Moulton Niguel Water District
By: U.S. Bank National Association,
as Trustee or Agent
Bondholder Communications: _____

Dated: _____, 2016

IMPORTANT TAX NOTICE

Withholding of 28% of gross Prepayment proceeds of any payment made within the United States may be required by the Jobs and Growth Tax Relief Reconciliation Act of 2003 (the "Act"), unless the Paying Agent has the correct taxpayer identification number (social security or employer identification number) or exemption certificate of the payee. **Please furnish a properly completed Form W-9 or exemption certificate or equivalent when presenting your securities.**

**Note: The Moulton Niguel Water District and Trustee/Agent shall not be responsible for the selection or use of the CUSIP numbers selected, nor is any representation made as to their correctness indicated in the notice or as printed on any Bond. They are included solely for the convenience of the holders.*

EXHIBIT B
DESCRIPTION OF ESCROW INVESTMENTS

<u>Type</u>	<u>Maturity Date</u>	<u>Par Amount</u>	<u>Rate</u>	<u>Cost</u>
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EXHIBIT C

NOTICE OF DEFEASANCE

**Notice of Defeasance to
the Holders of the
\$25,145,000
(Original Principal Amount)
Moulton Niguel Water District
Refunding Certificates of Participation**

Date of Issuance: August 20, 2003

NOTICE IS HEREBY GIVEN, with respect to the above-captioned certificates of participation (the "Certificates"), that the Moulton Niguel District (the "District") has on _____, 2015, from the proceeds of sale of bonds and other sources, irrevocably set aside in an Escrow Fund created for such purpose and held by U.S. Bank National Association, as escrow agent (the "Escrow Agent"), pursuant to an Escrow Deposit and Trust Indenture, dated as of June 1, 2015 (the "Escrow Agreement"), by and between the District and the Escrow Agent, moneys which shall be sufficient to (i) pay principal of and interest due with respect to the Certificates on September 1, 2015, March 1, 2016 and September 1, 2016 and (ii) prepay on September 1, 2016, all of the remaining outstanding Certificates at a redemption price equal to 100% of the principal amount to be redeemed, without premium. A schedule of the maturity dates of the outstanding Certificates and the CUSIP numbers of such Certificates is attached as Schedule 1.

The moneys deposited in the Escrow Fund (as defined in the Escrow Agreement), including the earnings derived from the investment thereof, are irrevocably pledged to the payment of principal or redemption price of and interest with respect to the Certificates. Said moneys have been invested in certain **[confirm]** United States Treasury Bonds State and Local Government Series issued by the United States Treasury ("SLGS") and which bear interest and mature on such dates as to insure the payment of all principal, premium, as applicable, and interest with respect to the Certificates.

As a consequence of the foregoing actions and in accordance with the Trust Indenture relating to the Certificates, the Certificate are no longer secured by the moneys described in or moneys held in certain funds established under the Trust Indenture relating to the Certificates; the Certificates are now payable solely from the moneys and investments set aside in the Escrow Fund as described above.

Additional information regarding the foregoing actions may be obtained from U.S. Bank National Association, Corporate Trust Department, [contact information, telephone number _____].

Dated: _____, 2015

U.S. BANK NATIONAL ASSOCIATION, as Escrow Agent/Trustee

Schedule 1

Schedule of Bonds to be Paid from the Escrow Fund

Maturity Date	CUSIP	Outstanding Principal Amount

EXHIBIT D

CERTIFICATE OF DISCHARGE

\$25,145,000

**MOULTON NIGUEL WATER DISTRICT
2003 REFUNDING CERTIFICATES OF PARTICIPATION**

CERTIFICATE OF TRUSTEE

The undersigned hereby states and certifies that:

(i) I am a duly qualified and acting officer of U.S. Bank National Association, acting as trustee (the "2003 Trustee") under the Trust Indenture, dated as of August 1, 2003 (the "2003 Trust Indenture"), by and among the Moulton Niguel Water District (the "District"), the Moulton Niguel Water District Public Facilities Corporation (the "Corporation") and the 2003 Trustee, and as such, I am familiar with the facts herein certified and am authorized to certify the same.

(ii) The District previously entered into an Installment Sale Agreement dated as of August 1, 2003 (the "2003 Agreement") with the Corporation in connection with the execution and delivery of \$25,145,000 aggregate principal amount of the 2003 Refunding Certificates of Participation (the "2003 Certificates").

(iii) Certain payments (the "2003 Installment Payments") made by the District to the Corporation under the 2003 Agreement were assigned to the 2003 Trustee for the purpose of paying the principal and interest with respect to the 2003 Certificates.

(iv) The District has elected to prepay the 2003 Installment Payments, thereby causing the prepayment of the 2003 Certificates, and for that purpose, the District issued on the date hereof its Moulton Niguel Water District 2015 Revenue Refunding Bonds (the "Bonds").

(v) On the date hereof, the District and the 2003 Trustee executed and delivered an Escrow Deposit and Trust Agreement, dated as of June 1, 2015 (the "Escrow Agreement"), to provide for the prepayment of the 2003 Installment Payments and the 2003 Certificates.

(vi) Section 701 of the 2003 Trust Indenture establishes the following conditions for defeasance of the 2003 Certificates (capitalized terms have the meaning given them in the 2003 Trust Indenture): (A) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Certificate Insurer ("Accountant") verifying the sufficiency of the escrow established to pay the 2003 Certificates in full on the maturity or Prepayment Date ("Verification"), (B) an escrow deposit agreement or irrevocable instructions (which shall be acceptable in form and substance to the Certificate Insurer), (C) an opinion of Special Counsel to the effect that the Certificates are no longer "Outstanding" under this Trust Indenture and (D) a certificate of discharge of the 2003 Trustee with respect to the Certificates

(vii) The 2003 Trustee hereby acknowledges receipt of the items listed in clauses (A), (B) and (C) of the preceding paragraph and the 2003 Trustee hereby certifies that the 2003 Certificates have been discharged pursuant to the terms of the 2003 Trust Indenture.

(viii) The 2003 Trustee hereby acknowledges the discharge of the District's payment obligations under the 2003 Agreement, except the District's obligations to indemnify the 2003 Trustee pursuant to Section 903 of the 2003 Trust Indenture, which shall survive such discharge as set forth in Section 702 of the 2003 Trust Indenture.

Capitalized terms used herein and not otherwise defined have the meanings given them in the 2003 Trust Indenture.

Dated: _____, 2015

**U.S. BANK NATIONAL
ASSOCIATION,**
as 2003 Trustee

By: _____
Authorized Officer

Jones Hall Draft 4-23-15

OFFICIAL NOTICE OF SALE

Relating to:

\$12,890,000*

**Moulton Niguel Water District
2015 Revenue Refunding Bonds**

Notice is Hereby Given that electronically submitted proposals will be received by the Moulton Niguel Water District (the "District") for the purchase of \$12,890,000* aggregate principal amount of Moulton Niguel Water District 2015 Revenue Refunding Bonds (the "Bonds"), which will be issued and delivered pursuant to an Indenture of Trust dated as of June 1, 2015 (the "Indenture").

Bidders are referred to the Preliminary Official Statement relating to the Bonds (the "Preliminary Official Statement") for additional information regarding the District, the Bonds, and the source of repayment therefor. See "Closing Procedures and Documents - Official Statement" below.

The bids on the Bonds will be received at the place, in the manner and up to the time and date specified below, subject to postponement or cancellation.

- DATE AND TIME: Wednesday, May 20, 2015 at 8:00 A.M. Pacific Time
- ELECTRONIC BIDDING: Bid proposals must be submitted electronically through i-Deal LLC's BiDCOMP™/PARITY® as provided in this Official Notice of Sale.
- ELECTRONIC POSTING: This Official Notice of Sale and the Preliminary Official Statement may be obtained through www.i-dealprospectus.com or from Public Financial Management, acting as financial advisor to the District (the "Financial Advisor").
- NO SEALED OR FAXED BIDS: Sealed or faxed bids will not be accepted.

Right To Modify or Amend: The District reserves the right to modify or amend this Official Notice of Sale in any respect; provided, however, that any such modification or amendment shall be communicated to potential bidders by publishing notice through any of the *Thomson Financial*, *The Bond Buyer* wire or the *Bloomberg News* wire (the "News Service") no later than 3:00 p.m. Pacific Time on the business day preceding the date prescribed for receipt of bids. Failure of any bidder to receive notice of any modification or amendment shall not affect the sufficiency of any such notice or the legality of the sale.

*Preliminary; subject to change

#3.

Cancellation or Postponement of Sale; Change in Principal Amount: The District reserves the right to cancel or postpone the public sale to a later date or other time by announcing such postponement or change through the News Service, no later than 3:00 p.m. Pacific Time on the business day preceding the date prescribed for receipt of bids. Notice of a new time, or of a new date and time, if any, will be given through the News Service as soon as practicable following a postponement. In the event of a postponement of the sale only, any subsequent bid submitted by the bidder will supersede any prior bid made. The District also reserves the right to change the principal amount of the Bonds or the amount of individual maturities of the Bonds (see "Maturities", below) by announcing such change *via* Parity or through the News Service, no later than 3:00 p.m. Pacific Time on the business day preceding the date prescribed for receipt of bids.

Accommodation to Bidders. As an accommodation to bidders, telephonic, facsimile or electronic mail notice of any modification or amendment of this Official Notice of Sale and notice of cancellation or postponement of the sale date or time will be given by the Financial Advisor to any bidder requesting such notice, such request for notice to be submitted to Public Financial Management, Attention: Brian Thomas, Managing Director, Telephone 213-489-4075, Fax: 213-489-4085 , E-mail: thomasb@pfm.com. Failure of any bidder to receive such telephonic, facsimile or electronic mail notice shall not affect the sufficiency of such notice or the legality of the sale.

Terms of the Bonds

General: The Bonds are being issued as fully registered bonds in denominations of \$5,000 or multiples thereof and will be dated the date of issue. The Bonds are payable from, first, the Tax Revenues and, second, the Net Revenues of the District, as more fully described in the Preliminary Official Statement.

Purpose and Application of Proceeds: The Bonds are being issued to refund, in full, on an advance basis, the District's 2003 Refunding Certificates of Participation (the "2003 Certificates"). In addition, proceeds of the Bonds will also be used to pay costs of issuing and delivering the Bonds and establish a debt service reserve fund for the Bonds.

Interest Rate: Interest on the Bonds is payable on September 1, 2015 and semiannually thereafter on March 1 and September 1 of each year. Interest is calculated on the basis of a 30-day month, 360-day year from the date of issuance and delivery of the Bonds. Each Bond shall bear interest at the specified rate from its date of issue to its stated maturity date, and all Bonds maturing on any one date shall bear the same rate of interest.

Bidders must specify the rate or rates of interest that the Bonds hereby offered for sale shall bear. Bidders will be permitted to bid different rates of interest; but (i) the maximum interest rate shall not exceed 5.00%; (ii) each interest rate specified in any bid must be in a multiple of one-eighth or one-twentieth of one percent per annum and a zero rate of interest cannot be specified; (iii) no Bond shall bear more than one rate of interest; (iv) each Bond shall bear interest from its date of issue to its stated maturity date at the interest rate specified in the bid; (v) all Bonds payable at any one time shall bear the same rate of interest; and (vi) any premium bid must be paid as part of the purchase price, and no bid will be accepted which contemplates the cancellation or the waiver of any interest or other concession by the bidder as a substitute for payment in full of the purchase price.

Maturities: The final aggregate principal amount of the Bonds and the maturity schedule will be determined following award to the successful bidder. For the purpose of calculating the winning bid for the Bonds, the maturity schedule set forth below shall be used.

Maturity Date (September 1)	Principal Amount*
2018	\$1,980,000
2019	2,015,000
2020	2,080,000
2021	2,160,000
2022	2,270,000
2023	2,385,000

Adjustment of Principal Amounts After Determination of Best Bid. Each principal amount listed in the maturity schedule set forth above is subject to increase or decrease in \$5,000 increments at the determination of the District. Such adjustment will not reduce or increase the aggregate principal amount of the Bonds by more than fifteen percent (15%) from the amount shown in the Maturities schedule shown above. The Financial Advisor will promptly recalculate the aggregate principal amount of the Bonds following award to the successful bidder, for the purpose of maintaining certain funding requirements for the refunding of the 2003 Certificates, and the Financial Advisor will promptly inform the successful bidder of any such adjustment to the maturity schedule set forth above. Subsequent to the adjustment of principal amounts, the proposed purchase price will be adjusted to the level necessary to maintain the successful Purchaser's spread as a percent of total par amount.

By offering a bid for the Bonds, a bidder will be obligated, if it is the successful bidder, to purchase the Bonds with any changes described above. The successful bidder may not withdraw its bid or change its interest rate bids as a result of any changes made to the principal amounts set forth above.

Term Bonds; Mandatory Sinking Fund Payments: Bidders may not elect to structure maturities of the Bonds as term bonds.

No Optional Redemption: The Bonds are not subject to optional redemption prior to maturity.

Bidding Parameters. Each bid for the Bonds must meet the minimum and maximum coupon and pricing criteria shown in the Bidding Parameters Table on a maturity and aggregate basis.

*Preliminary, subject to change.

#3.**BIDDING PARAMETERS TABLE****

INTEREST		PRICING	
Dated Date:	Delivery Date	Max. Reoffering Price	
Delivery Date:	June 10, 2015	Each Maturity:	N.A.
Interest Payment Dates:	September 1 and March 1	Aggregate:	118.0%
First Interest:	September 1, 2015	Min. Reoffering Price	
Coupon Multiples:	1/8 or 1/20 of 1%	Each Maturity:	98.5%
Maximum Coupon:	5.00%	Aggregate:	99.0%
Minimum Coupon:	N.A.		
Maximum TIC:	N.A.	PROCEDURAL	
		Sale Date:	May 20, 2015
		Bid Submission:	Electronic through PARITY [®] only
PRINCIPAL			
Optional Redemption:	The Bonds are not subject to optional redemption prior to maturity	All or None:	Yes
Principal Increases Each Maturity:	20%	Bid Award Method:	Lowest TIC
Aggregate:	15%	Bid Confirmation:	Fax Signed PARITY [®] screen
Principal Reductions Each Maturity:	20%	Awarding of Bid:	Within 6 hours of receiving bids
Term Bonds:	N.A.	Good Faith Deposit:	\$500,000; as more fully described below in "Good Faith Deposit"

** If numerical or date references contained in the body of this Official Notice of Sale conflict with the Bidding Parameters Table, the body of this Official Notice of Sale shall control. Consult the body of this Official Notice of Sale for a detailed explanation of the items contained in the Bidding Parameters Table, including interpretation of such items and methodologies used to determine such items.

Security: The Bonds are payable from, first, the Tax Revenues and, second, the Net Revenues of the District, as more fully described in the Preliminary Official Statement. There are obligations currently outstanding that are payable on a parity basis with the Bonds, as described in the Preliminary Official Statement and the District has the right to incur additional obligations payable on a parity basis with the Bonds, as described in the Preliminary Official Statement. Potential bidders should review the Preliminary Official Statement.

Tax-Exempt Status: In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, bond counsel to the District ("Bond Counsel"), 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 individual and corporate alternative minimum taxes. In the event that prior to the issuance and delivery of the Bonds (a) the interest represented by other obligations of the same type and character shall be declared to be taxable (either at the time of such declaration or at any future date) under any federal income tax laws, either by the terms of such laws or by ruling of a federal income tax authority or official which is followed by the Internal Revenue Service, or by decision of any federal court, or (b) any federal income tax law is adopted which will have a substantial adverse effect upon owners of the Bonds as such, the successful bidder for the Bonds may, at its option, prior to the issuance and delivery of the Bonds, be relieved of its obligation under the contract to purchase the Bonds, and in such case the deposit accompanying its proposal will be returned.

Book-Entry Only: The Bonds, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, in the denominations of \$5,000 and integral multiples thereof. Purchasers will not receive bond certificates representing their interest in the Bonds purchased. Principal and interest are payable in lawful money of the United States of America and will be paid to DTC, which in turn will remit such amounts to the beneficial owners of the Bonds through its participants, as described in the Preliminary Official Statement. Delivery of the Bonds will be made through the facilities of DTC in New York, New York, or through the facilities of the Trustee via FAST transfer, and is presently expected to occur on June 10, 2015.

Terms of Sale

Best Bid: The Bonds will be awarded to the bidder offering to purchase the Bonds at the lowest true interest cost to the District. The true interest cost (the "TIC") for each bid will be determined on the basis of the aggregate present value of each semiannual payment. The present value will be calculated to the expected date of delivery of the Bonds, being June 10, 2015, and will be based on the bid amount (par value plus any premium and less any discount). If two or more bids specify the same lowest TIC, then the selection for the award of the Bonds will be made among such bidders by the District in its sole discretion. All interest will be computed on a 360-day year, 30-day month basis from June 10, 2015, the expected date of issuance and delivery of the Bonds.

By submission of its bid, a bidder shall be deemed to have made the following representations:

(1) The bidder has received and reviewed the Preliminary Official Statement and, as a condition to bidding on the Bonds, has determined that it can comply with the requirements of

#3.

Rule 15c2-12 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

(2) As of the date of its bid and as of the date of delivery of the Bonds, all members of the bidder's syndicate either participate in DTC or clear through or maintain a custodial relationship with an entity that participates in said depository.

Form of Bid: All bids must be for all, but not less than all, of the Bonds offered for sale, plus such premium or less such discount as is specified in the bid. All bids must be unconditional. Each bid must be delivered by electronic transmission as described below and be received by the time specified on the first page of this Official Notice of Sale, or such other date, time or date and time as the District may establish upon postponement of the sale of the Bonds pursuant to the terms and conditions set forth in this Official Notice of Sale. All bids shall be deemed to incorporate all of the terms of this Official Notice of Sale.

Electronic Bids: The District will receive bids delivered electronically through Parity. For further information about Parity, potential bidders may contact Parity at 1359 Broadway, 2nd Floor, New York, New York 10018, telephone: (212) 849-5021.

If any provision of this Official Notice of Sale conflicts with information provided by Parity, this Official Notice of Sale shall control. Each bidder submitting an electronic bid understands and agrees by doing so that it is solely responsible for all arrangements with (including any charges by) Parity, and that Parity is not acting as an agent of the District. Instructions and forms for submitting electronic bids must be obtained from Parity. Acceptance of electronic bids shall be subject to the limitations set forth in "**WARNINGS REGARDING ELECTRONIC BIDS**" below.

WARNINGS REGARDING ELECTRONIC BIDS: *The District assumes no responsibility for ensuring or verifying bidder compliance with Parity's procedures. The District shall be entitled to assume that any bid received via Parity has been made by a duly authorized agent of the bidder. The District, the Financial Advisor, Bond Counsel and Disclosure Counsel assume no responsibility for any malfunction of the Parity system, any failure of a bid to be received at the official time for receipt of bids, or any error contained in any bid submitted electronically. The official time for receipt of bids will be determined by the District at the place of bid receipt, and the District shall not be required to accept the time kept by Parity as the official time. The District assumes no responsibility for informing any bidder prior to the deadline for receiving bids that its bid is incomplete or not received.*

If a bidder submits an electronic bid for the Bonds, such bidder thereby agrees to the following terms and conditions: (i) if any provision in this Official Notice of Sale with respect to the Bonds conflicts with information or terms provided or required by Parity, this Official Notice of Sale, including any amendments issued as described herein, shall control; (ii) each bidder shall be solely responsible for making necessary arrangements to access Parity for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale; (iii) the District shall not have any duty or obligation to provide or assure access to Parity to any bidder, and the District shall not be responsible for proper operation of, or have any liability for, any delays, interruptions or damages caused by use of Parity or any incomplete, inaccurate or untimely bid submitted by any bidder through Parity; (iv) the District is using Parity as a communication mechanism, and not as an agent of the District, to conduct the electronic bidding for the Bonds; (v) Parity is acting as an independent contractor, and is not acting for or on behalf of the District; (vi) the District is not responsible for ensuring or verifying bidder compliance with any procedures established by Parity; (vii) the District may regard the electronic transmission of

a bid through Parity (including information regarding the purchase price for the Bonds and interest rates for any maturity of the Bonds) as though the information were submitted and executed on the bidder's behalf by a duly authorized signatory; (viii) if the bidder's bid is accepted by the District, this Official Notice of Sale and the information that is transmitted electronically through Parity shall form a contract, and the bidder shall be bound by the terms of such contract; and (ix) information provided by Parity to bidders shall form no part of any bid or any contract between the successful bidder and the District unless that information is included in this Official Notice of Sale provided by the District.

Multiple Bids: If multiple bids are received from a single bidder by any means or combination thereof, the District shall accept the bid representing the lowest true interest cost to the District, and each bidder agrees by submitting any bid to be bound by such best bid.

Good Faith Deposit: A Good Faith Deposit in the amount of \$500,000 is only required of the winning bidder for the Bonds. The winning bidder for the Bonds is required to submit such Good Faith Deposit payable to the order of the District in the form of a wire transfer in federal funds as instructed by the District's Financial Advisor, Public Financial Management, Inc. The winning bidder shall submit the Good Faith Deposit not more than two hours after verbal award is made. The winning bidder should provide as quickly as it is available, evidence of wire transfer by providing the District the federal funds reference number. If the Good Faith Deposit is not received in the time allotted, the bid of the winning bidder may be rejected and the District may direct the next lowest bidder to submit a Good Faith Deposit and thereafter may award the sale of the Bonds to the same. If the winning bidder fails to comply with the Good Faith Deposit requirement as described herein, that bidder is nonetheless obligated to pay to the District the Good Faith Deposit amount as liquidated damages due to the failure of the winning bidder to timely deposit the Good Faith Deposit.

Submission of a bid to purchase the Bonds serves as acknowledgement and acceptance of the terms of the Good Faith Deposit requirement.

The Good Faith Deposit so wired will be retained by the District until the delivery of the Bonds, at which time the Good Faith Deposit will be applied against the purchase price of the Bonds or the Good Faith Deposit will be retained by the District as partial liquidated damages in the event of the failure of the successful bidder to take up and pay for such Bonds in compliance with the terms of the Notice of Sale and of its bid. No interest on the Good Faith Deposit will be paid by the District. The balance of the purchase price must be wired in federal funds to the account detailed in the closing memorandum, simultaneously with delivery of the Bonds.

Statement of True Interest Cost: Each bidder is requested, but not required, to state in its bid the total percentage true interest cost (TIC), which shall be considered as informative only and not binding on either the bidder or the District.

Reoffering Price Certification: Within one-half hour of the notification of award of the bid opening, the successful bidder for the Bonds shall provide initial offering prices for each maturity of the Bonds by e-mail to the District's Financial Advisor at thomasb@pfm.com and figueroam@pfm.com. Also within one-half hour of the time of the bid opening, the successful bidder shall notify the District's Financial Advisor by e-mail of the amount of any original issue discount or premium on the Bonds and the amount received from the sale of the Bonds to the public that will be retained by the successful bidder as its compensation. Prior to delivery of the Bonds, the successful bidder shall provide to the District a reoffering price certification in form and substance

#3.

substantially identical to the certificate attached hereto as Exhibit A and approved by Bond Counsel.

Qualification for Sale; Blue Sky: Compliance with Blue Sky laws shall be the sole responsibility of the successful bidder, and the successful bidder shall indemnify and hold harmless the District and its officers and officials from any loss or damage resulting from any failure to comply with any such laws. The District will furnish such information and take such action not inconsistent with law as the successful bidder may request and the District shall deem necessary or appropriate to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States of America as may be designated by the successful bidder; provided, however, that the District shall not execute a general or special consent to service of process or qualify to do business in connection with such qualification or determination in any jurisdiction. **The successful bidder will not offer to sell, or solicit any offer to buy, the Bonds in any jurisdiction where it is unlawful for such successful bidder to make such offer, solicitation or sale, and the successful bidder shall comply with the Blue Sky and other securities laws and regulations of the states and jurisdictions in which the successful bidder sells the Bonds.**

Right of Rejection: The District reserves the right, in its discretion, to reject any and all bids, to waive any irregularity or informality in any bid and to reoffer the Bonds for sale. The District retains absolute discretion to determine whether any bid is timely. The District takes no responsibility for informing any bidder prior to the time for receiving bids that its bid is incomplete or not received.

Prompt Award: The District will take action awarding the Bonds or rejecting all bids not later than six (6) hours after the expiration of the time herein prescribed for the receipt of bids unless such time of award is waived by the successful bidder. Notice of the award will be given promptly to the successful bidder.

Closing Procedures And Documents

Delivery and Payment: DELIVERY OF THE BONDS WILL BE MADE TO THE SUCCESSFUL BIDDER THROUGH DTC AND IS EXPECTED TO OCCUR ON JUNE 10, 2015. Payment for the Bonds must be made by wire transfer in immediately available funds. Any expense of providing immediately available funds, whether by transfer of Federal Reserve Bank funds or otherwise, shall be borne by the successful bidder. The cost of preparing the Bonds will be borne by the District.

Right of Cancellation: The successful bidder shall have the right, at the bidder's option, to cancel its contractual obligation to purchase the Bonds if the District shall fail to issue the Bonds and tender the same for delivery within sixty (60) days from the date of sale thereof, and in such event the successful bidder shall be entitled to the return of such bidder's Deposit.

California Debt And Investment Advisory Commission Fee: Attention of bidders is directed to California Government Code Section 8856, which provides that the lead underwriter or the purchaser of the Bonds will be charged the California Debt and Investment Advisory Commission fee payable with respect to the Bonds.

CUSIP Numbers, DTC Fees and Other Fees: It is expected that the successful bidder will apply for CUSIP identification numbers for the Bonds and will furnish such CUSIP

identification numbers to Bond Counsel within two (2) business days after notice of award. It is anticipated that such CUSIP identification numbers will be printed on the Bonds being delivered to DTC, but neither the failure to print a CUSIP identification number nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder to accept delivery of and pay for the Bonds in accordance with the terms and provisions of its bid and this Official Notice of Sale. CUSIP Service Bureau charge for the assignment of CUSIP identification numbers shall be paid by the successful bidder. All expenses in relation to the printing of the CUSIP identification numbers on the Bonds shall be paid by the District. The successful bidder shall also be required to pay all fees required by DTC, the Securities Industry and Financial Markets Association, the Municipal Securities Rulemaking Board and any other similar entity imposing a fee in connection with the issuance of the Bonds.

No Litigation: There is no litigation pending concerning the validity of the Bonds, the corporate existence of the District, or the entitlement of the officers thereof to their respective offices, and the purchaser will be furnished a no-litigation certificate certifying to the foregoing as of and at the time of delivery of the Bonds.

Legal Opinion - Bond Counsel: The legal opinion of Jones Hall, A Professional Law Corporation, Bond Counsel to the District, addressed to the District, approving the validity of the Bonds will be furnished to the successful bidder upon delivery of the Bonds. A copy of the proposed form of the opinion of Bond Counsel is set forth in Appendix D of the Preliminary Official Statement.

Legal Opinion - Disclosure Counsel: The legal opinion of Jones Hall, A Professional Law Corporation, Disclosure Counsel to the District, regarding the Official Statement, will be furnished to the successful bidder upon delivery of the Bonds. The form of the opinion is attached as Exhibit B.

Official Statement: A Preliminary Official Statement has been prepared, copies of which may be obtained upon request made to the Financial Advisor, Public Financial Management, Attention: Brian Thomas, Managing Director, Telephone 213-489-4075, Fax: 213-489-4085, E-mail: thomasb@pfm.com. The Preliminary Official Statement is also available at www.i-dealprospectus.com. The Preliminary Official Statement shall be "deemed final" by the District prior to or on the date of sale of the Bonds for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1), but the Preliminary Official Statement is subject to revision, amendment and completion in a final Official Statement. A copy of the certificate executed by the District indicating that the Preliminary Official Statement has been deemed final as of its date will be provided to potential bidders upon request to the Financial Advisor at the address provided above. The District will furnish to the successful bidder, at no expense to the successful bidder, up to 25 copies of the Official Statement no later than the business day prior to the date of delivery of the Bonds or, if later, within seven (7) business days of the award date. Additional copies will be made available upon request, submitted to the Financial Advisor no later than twenty-four (24) hours after the time of receipt of bids, at the purchaser's expense, for use in connection with any resale of the Bonds.

Certificate of District Relating to Official Statement: The District will provide to the successful bidder for the Bonds a certificate, signed by an authorized officer of the District, confirming to the successful bidder that, as of the date of the final Official Statement, to the best of such officer's knowledge and belief, the Official Statement (excluding therefrom the information provided by the successful bidder regarding the underwriting, reoffering and CUSIP identification numbers for the Bonds, and the information set forth in Appendix F - "Book Entry Only System,"

Exhibit A

FORM OF REOFFERING PRICE CERTIFICATE*

\$ _____
Moulton Niguel Water District
2015 Revenue Refunding Bonds

The undersigned, on behalf of _____, as purchaser (the "Purchaser") of the above-captioned bonds (the "Bonds"), hereby confirms our advice:

(i) Based upon reasonable expectations and actual facts that existed on _____, being the date upon which the Moulton Niguel Water District (the "Issuer") sold the Bonds to the Purchaser (the "Sale Date"), the Purchaser reasonably expected that the first prices at which a substantial amount of each maturity of the Bonds (being at least 10% of each maturity) would be offered and sold to the general public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) (the "General Public") in a bona fide public offering at the prices, or in the case of obligations sold on a yield basis, at the respective yields set forth in Schedule A attached hereto and by this reference incorporated herein and shown on the cover or inside cover of the Official Statement (together the "Initial Offering Prices").

(ii) The aggregate of the Initial Offering Prices is \$_____.

(iii) The Initial Offering Prices of the Bonds of each maturity (and stated interest rate) reflected the assessment by the Purchaser of not more than the fair market prices of the Bonds as of the Sale Date and such offering prices were established by a bona fide public offering by the Purchaser to the General Public.

(iv) As of the date hereof, 100% of the Bonds of each maturity were actually offered to the general public in a bona fide public offering for the Initial Offering Prices.

(v) As of the Sale Date, the Purchaser, taking into account market conditions, had no reason to believe any of the Bonds would be initially sold to the general public at prices greater than the Initial Offering Prices.

(vii) As of the Sale Date, at least 10% of the principal amount of each maturity of the Bonds initially was sold at the respective Initial Offering Price for that maturity shown in Exhibit A except for the Bonds with the following maturities and stated interest rates.

Maturity

Rate

Preliminary; subject to change

#3.

(viii) In our opinion, based on our experience with bonds similar to the Bonds, it was reasonable to require, as a condition to the marketing of the Bonds, that the Reserve Fund be funded as provided in the Indenture and the funding of the Reserve Fund was a vital factor in marketing the Bonds.

The Purchaser understands that Bond Counsel will rely upon this certificate, among other things, in reaching its conclusion that the Bonds do not constitute "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, provided, however, that nothing herein represents our interpretation of any laws, and in particular, regulations under Section 148 of the Internal Revenue Code.

Dated: _____, 2012

as Purchaser

By: _____
Authorized Officer

SCHEDULE A

<u>Maturity Date (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Reoffering Price*</u>
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*Stated as a Percentage of Par.



Moulton Niguel Water District

STAFF REPORT

TO: Board of Directors **MEETING DATE:** May 1, 2015

FROM: Gina Hillary, Director of Human Resources

SUBJECT: Employer Paid Member Contributions under the California Public Employees' Retirement System (CalPERS)

DIVISION: All

SUMMARY:

Issue: Based on the Memorandum of Understanding (MOU) terms, Resolution No. 10-01 needs to be updated to ensure consistency with the agreed upon terms.

Recommendation: It is recommended that the Board of Directors approve the resolution entitled, "Employer Paid Member Contributions under the California Public Employees' Retirement System (CalPERS)."

Fiscal Impact: There is no fiscal impact.

BACKGROUND:

The current 4 year MOU with the employee association was adopted by the Board in 2013. During the negotiations, it was agreed that employees hired prior to July 28, 2009 (otherwise known as "Tier 1 employees") would start contributing to the cost sharing of CalPERS benefits as follows:

<u>Fiscal Year</u>	<u>Tier 1 Employee Cost Share</u>
2013-14	3%
2014-15	3%
2015-16	4%
2016-17	7%

#4.

Employer Paid Member Contributions Under (CalPERS)

May 1, 2015

Page 2 of 2

DISCUSSION:

To ensure consistency of District documents with the MOU and the contract the District has with CalPERS, the 2010 outdated resolution describing District and employee cost sharing of CalPERS contributions needs to be updated to reflect the current agreed upon terms in the MOU with respect to Tier 1 employees' increasing cost share contribution.

The updating of the resolution does not change any aspect of the terms of the MOU; therefore, it does not result in any fiscal impact.

Attachment: Resolution Approving Employer Paid Member Contributions to CalPERS (Template from CalPERS)

RESOLUTION NO. 15-___

**RESOLUTION OF THE BOARD OF DIRECTORS OF
MOULTON NIGUEL WATER DISTRICT FOR
EMPLOYER PAID MEMBER CONTRIBUTIONS UNDER THE CALIFORNIA PUBLIC
EMPLOYEES' RETIREMENT SYSTEM (CALPERS)**

WHEREAS, the Board of Directors (“Board”) of Moulton Niguel Water District (“MNWD” or “District”) has the authority to implement Government Code Section 20691;

WHEREAS, the District’s Board, which is the governing body of the District, has a written labor policy or agreement which specifically provides for the normal member contributions to be paid by the employer;

WHEREAS, one of the steps in the procedures to implement Section 20691 of the Government Code is the Board’s adoption of a resolution to stipulate the Board’s current policy on Employer Paid Member Contributions (“EPMC”); and,

WHEREAS, the governing body of the District identifies the following conditions for the purpose of the District's election to pay EPMC:

- (a) For employees hired prior to July 28, 2009, the District will pay the entire portion of the normal member contributions (7%) as EPMC and employees shall pay 0%;
- (b) For employees hired after July 28, 2009, EPMC shall be 0% (Employee to pay all of the required member contribution); and,
- (c) This Resolution shall be effective retroactively to July1, 2014.

NOW, THEREFORE, BE IT RESOLVED that the governing body of the Moulton Niguel Water District elects to pay EPMC, as set forth above.

#4.

ADOPTED, SIGNED and APPROVED this 1st day of May, 2015.

MOULTON NIGUEL WATER DISTRICT

President
MOULTON NIGUEL WATER DISTRICT
and Board of Directors thereof

Secretary
MOULTON NIGUEL WATER DISTRICT
and Board of Directors thereof



Moulton Niguel Water District

STAFF REPORT

TO: Board of Directors **MEETING DATE:** May 1, 2015

FROM: Ruth Zintzun, Finance Manager

SUBJECT: Water Shortage Contingency Plan Implementation

DIVISION: District-wide

SUMMARY:

Issue: Prolonged drought conditions and State regulations require the District to implement its Water Shortage Contingency Plan.

Recommendation: It is recommended that the Board of Directors approve the resolution entitled, "Declaring Water Shortage Stages 1 and 2".

Fiscal Impact: Conservation penalties will be assessed on customers in violation of the Water Shortage Contingency Plan Ordinance under Stage 2 implementation.

BACKGROUND:

On April 1, 2015, Governor Jerry Brown issued an Executive Order to address prolonged drought conditions and restricted water supplies. The State Water Resources Control Board has issued draft regulations to effect the Executive order and aims to reduce statewide water usage by 25% by February 2016. The result of the draft regulations require that Moulton Niguel Water District reduce District-wide water consumption by 20%.

In February 2015, in compliance with the Proposition 218 process, the Board of Directors adopted Ordinance No. 15-01, "Water Conservation Rules and Regulations" ("Ordinance"). The Ordinance prescribes incremental stages of water reductions based on varying water shortage conditions, utilizing the water budget rate structure and other conservation tools. A summary of the various stages and the impacts to the different customer classes has been provided in attachment 2.

#5.

Water Shortage Contingency Plan Implementation

May 1, 2015

Page 2 of 2

DISCUSSION:

To ensure timely response to the draft regulations and progress towards meeting the 20% water usage reduction goal by February 2016, staff is recommending that the Board of Directors implement the District's Water Shortage Contingency Plan through an incremental phased approach.

Currently, the District expects to see water usage savings as a result of the reduction in indoor gallons per person per day water budget and lowering of the plant factor for outdoor watering, which went into effect April 1, 2015. The District is also preparing a customer communication campaign to encourage customers to reduce their water usage and stay within their water budget.

In order to allow ample time for sufficient communication with customers and inform them of potential conservation penalties, it is recommended that the Board approve the implementation of Stage 1 of the Water Shortage Contingency Plan, effective June 1, 2015. Stage 1 calls for customers to stay within their water budget and eliminates bill adjustments for pool fills for potable customers, as well as prohibiting the use of potable outdoor irrigation for recycled water customers.

To further reduce water usage throughout the District, it is recommended that the Board approve the implementation of Stage 2 of the Water Shortage Contingency Plan to be effective on July 1, 2015. In Stage 2, customers who exceed their water budget must pay a penalty and no bill adjustments will be granted. Any potable water customer using water in excess of their water budget will pay conservation penalties equal to \$9.04 for each billing unit over their budget and recycled water customers will pay \$8.21 for each billing unit over their budget. July 1, 2015, is also when the Metropolitan Water District of Southern California Allocation Plan goes into effect, requiring 15% reduction in water usage for Southern California.

Staff will present an implementation timeline and outreach plan to communicate to the District's customers.

Any stage implemented shall be in effect for up to 120 days, at which point the Board will review and determine whether to continue a water shortage stage.

Attachments:

1. Resolution entitled, "Declaring Water Shortage Stages 1 and 2"
2. State Water Resources Control Board Draft Regulations Fact Sheet
3. Water Shortage Contingency Plan Stages
4. Ordinance 15-01; "Water Conservation Rules and Regulations"

RESOLUTION NO. 15-__

**RESOLUTION OF THE BOARD OF DIRECTORS OF
MOULTON NIGUEL WATER DISTRICT
DECLARING WATER SHORTAGE STAGES 1 AND 2**

WHEREAS, California Constitution article X, section 2 and California Water Code section 100 provide that because of conditions prevailing in the state of California (the "State"), it is the declared policy of the State that the general welfare requires that the water resources of the State shall be put to beneficial use to the fullest extent of which they are capable, the waste or unreasonable use of water shall be prevented, and the conservation of such waters is to be exercised with a view to the reasonable and beneficial use thereof in the interest of the people and the public welfare; and

WHEREAS, pursuant to California Water Code section 106, it is the declared policy of the State that the use of water for domestic use is the highest use of water and that the next highest use is for irrigation; and

WHEREAS, pursuant to California Water Code section 375, the Moulton Niguel Water District (the "District") is authorized to adopt and enforce a water conservation program to reduce the quantity of water used by persons within its jurisdiction for the purpose of conserving the water supplies of the District; and

WHEREAS, Governor Brown proclaimed a condition of statewide drought and called upon local agencies to take aggressive, immediate action to reduce water consumption locally and regionally; and

WHEREAS, pursuant to Ordinance No. 15-01 the District is authorized to declare water shortage stages; and

WHEREAS, because of the prevailing conditions in the State, the current statewide drought, and the declared policy of the State, the District hereby finds and determines that it is necessary and appropriate for the District to adopt, implement, and enforce water shortage response measures to reduce the quantity of water used by consumers within the District to ensure that there is sufficient water for human consumption, sanitation, and fire protection all in conformance with Ordinance No. 15-01; and

NOW, THEREFORE, the Board of Directors of the Moulton Niguel Water District does hereby **RESOLVE, DETERMINE, AND ORDER** as follows:

Section 1. Water Shortage Stage 1. Pursuant to Ordinance No. 15-01, the Board hereby declares and finds that beginning June 1, 2015, a Water Shortage Stage 1 shall be in effect within the District. Such voluntary water shortage response measures during a Water Shortage Stage 1 as are set forth in Ordinance No. 15-01 are necessary for the following reasons:

- (1) District water supply conditions and storage levels;
- (2) statewide water supply conditions;

#5.

- (3) local water supply and demand conditions; and
- (4) actions by surrounding wholesale and retail water agencies.

Section 2. **Water Shortage Stage 2.** Pursuant to Ordinance No. 15-01, the Board hereby declares and finds that beginning July 1, 2015, a Water Shortage Stage 2 shall be in effect within the District. Such mandatory water shortage response measures, reductions in water use, and penalties during a Water Shortage Stage 2 as are set forth in Ordinance No. 15-01 are necessary for the following reasons:

- (1) District water supply conditions and storage levels;
- (2) statewide water supply conditions;
- (3) local water supply and demand conditions; and
- (4) actions by surrounding wholesale and retail water agencies.

Section 3. **Severability.** If any provision, section, subsection, sentence, clause or phrase or sections of this Resolution, or the application of same to any person or set of circumstances, is for any reason held to be unconstitutional, void or invalid, the invalidity of the remaining portions of this Resolution shall not be affected, it being the intent of the Board of Directors in adopting this Resolution that no portions, provisions, or regulations contained herein shall become inoperative, or fail by reason of the unconstitutionality of any other provision hereof, and all provisions of this Resolution are declared to be severable for that purpose.

Section 4. **Effective.** This Resolution shall be effective immediately upon adoption.

APPROVED, ADOPTED, and SIGNED this 1st day of May, 2015.

President
MOULTON NIGUEL WATER DISTRICT
And of the Board of Directors thereof

Secretary
MOULTON NIGUEL WATER DISTRICT
And of the Board of Directors thereof



Fact Sheet

DRAFT REGULATIONS IMPLEMENTING 25% CONSERVATION STANDARD

On April 1, 2015, Governor Jerry Brown issued the fourth in a series of Executive Orders on actions necessary to address California's severe drought conditions. With snowpack water content at a record low level of 5 percent of average for April 1st, major reservoir storage shrinking each day as a percentage of their daily average measured over the last several decades, and groundwater levels continuing to decline, urgent action is needed. The April 1 Executive Order requires, for the first time in the State's history, mandatory conservation of potable urban water use. Commercial agriculture in many parts of the State has already been notified of severe cutbacks in water supply contracted through the State and Federal Water Projects and is bracing for curtailments of surface water rights in the near-term. Conserving water more seriously now will forestall even more catastrophic impacts if it does not rain next year.

Early Input

To maximize input in a short amount of time, the State Water Board released a proposed regulatory framework for implementing the 25% conservation standard mandated by the Executive Order on April 7, 2015. This will result in water savings amounting to approximately 1.3 million acre-feet of water over the next nine months, or nearly as much water as is currently in Lake Oroville. Draft regulations are now available for informal public comment that consider and incorporate the input contained in over 250 comments submitted by water suppliers, local government, businesses, individuals, and non-governmental organizations. Key areas of comment focused on the methodology behind the assignment of conservation standards, the availability of exclusions or adjustments under defined conditions, how to approach the commercial, industrial and institutional (CII) sector, the requirements for smaller water suppliers, and the approach to enforcement.

What's Next

During this second informal comment period, we are soliciting feedback on the updated approach reflected in the draft regulation as well as comment on the specific regulatory language. Please submit comments by email to Jessica Bean at Jessica.Bean@waterboards.ca.gov by April 22, 2015. The draft regulation will be further refined based on comments received and the Notice of Proposed Emergency Rulemaking and accompanying revised regulatory language will be released on April 28th for public comment and consideration by the Board at its May 5-6, 2015 regular business meeting.



Draft Regulation - Key Provisions

Conservation Standard for Urban Water Suppliers

As drought conditions continue, all water suppliers will need to do more to meet the statewide 25% conservation standard. Many communities around the State have been conserving for years. Some of these communities have achieved remarkable results with residential water use now hovering around the statewide target for indoor water use, while others are using many times more. Everyone must do more, but the greatest opportunities to meet the statewide 25% conservation standard now exist in those areas with higher water use. Often, but not always, these water suppliers are located in areas where the majority of the water use is directed at outdoor irrigation due to lot size and other factors.

In response to comments and suggestions, the draft regulation assigns urban water suppliers to a tier of water reduction based upon three months of summer residential gallons-per-capita-per-day data (July-September). These three months reflect the amount of water used for summer outdoor irrigation, which provides the greatest opportunity for conservation savings.

The number of tiers has more than doubled, from the proposed regulatory framework, to more equitably allocate the conservation savings necessary to reach the statewide 25 percent reduction mandate. This updated approach lessens the disparities in reduction requirements between agencies that have similar levels of water consumption, but fall on different sides of dividing lines between tiers. Suppliers that were in the 35% reduction tier in the prior proposal may now be in the 32% or 28% tier if their summer 2014 R-GPCD was below 210. Adding additional tiers to the conservation framework also better reflects past conservation efforts because water suppliers that have reduced use prior to the drought will have a lower R-GPCD and lower conservation standard than water suppliers with similar climate and density factors where R-GPCD remains high.

Urban water suppliers (serving more than 3,000 customers or delivering more than 3,000 acre feet of water per year and accounting for more than 90% of urban water use) will be assigned a conservation standard, as shown in the following table:

Tier	R-GPCD Range		# of Suppliers in Range	Conservation Standard
	From	To		
1	reserved		0	4%
2	0	64.99	23	8%
3	65	79.99	21	12%
4	80	94.99	42	16%
5	95	109.99	41	20%
6	110	129.99	51	24%
7	130	169.99	73	28%
8	170	214.99	66	32%
9	215	612.00	94	36%

The Smith family of three learns that their water district must reduce water use by 12 percent. A manufacturing plant uses 20 percent of the water and cannot reduce its use. So, residents are told to reduce their use by 15 percent to meet the overall 12 percent target. The Smith family uses an average of 210 gallons per day (or about 70 gallons per person), 165 gallons for indoor use and 45 gallons for watering their small yard. To meet the 15% reduction requirement they must bring their total water use down to about 180 gallons per day. This is equivalent to about 60 gallons per person per day.



The Jones family of four learn that their water district must reduce water use by 32 percent. An oil refinery uses 10 percent of the district's water and cannot reduce its use. Their city also has many small businesses, and a golf course, which can reduce use by more than 10 percent. The residents must now reduce their use by 30 percent to meet the overall 32 percent target. The Jones family uses an average of 1,200 gallons per day (or about 300 gallons per person); 300 gallons for indoor use and 900 gallons outdoors, to irrigate a large yard that includes grass and fruit trees. To cut water use by 30 percent, the Jones' must cut their water use by 360 gallons per day to 840 gallons which is equivalent to 210 gallons per person per day.

The draft regulation describes two situations where water suppliers could request to modify their total water use or be placed into a lower conservation tier:

1. Urban water suppliers delivering more than 20 percent of their total water production to commercial agriculture may be allowed to modify the amount of water subject to their conservation standard. These suppliers must provide written certification to the Board to be able to subtract the water supplied to commercial agriculture from their total water production for baseline and conservation purposes.
2. Urban water suppliers that have a reserve supply of surface water that could last multiple years may be eligible for placement into lower conservation tier. Only suppliers meeting the eligibility criteria will be considered. These criteria relate to the source(s) of supply, precipitation amounts, and the number of years that those supplies could last.

There are no specific use reduction targets for commercial, industrial, and institutional users served by urban and all other water suppliers. Water suppliers will decide how to meet their conservation standard through reductions from both residential and non-residential users. Water suppliers are encouraged to look at their commercial, institutional and industrial properties that irrigate outdoor ornamental landscapes with potable water for potential conservation savings.

An open question is whether the draft regulation should allow multiple suppliers to join together to meet a collective conservation standard. In order to achieve a statewide 25% reduction in urban water use, the group as a whole would need to achieve the same amount of water savings as they would as individual suppliers. This approach could provide additional flexibility in achieving the conservation standard and allow for uniform messaging and implementation across contiguous service areas. There are many uncertainties, however, related to the appropriate geographic scope, group leadership, compliance assessment, accountability, and enforcement. Input is requested regarding how a collective approach could be administered that addresses these uncertainties and achieves the required reduction in water use.

Conservation Standard For All Other Water Suppliers

Under the current proposal, smaller water suppliers (serving fewer than 3,000 connections) will be required to achieve a 25% conservation standard or restrict outdoor irrigation to no more than two days per week. Commercial, industrial, and institutional users with independent supplies will also be required to reduce usage by 25% or restrict outdoor irrigation to no more than two days per week. These smaller urban suppliers serve less than 10% of Californians.

End-User Requirements

The new prohibitions in the Executive Order apply to all Californians and will take effect immediately upon approval of the regulation by the Office of Administrative Law. These include:

- Irrigation with potable water of ornamental turf on public street medians is prohibited; and
- Irrigation with potable water outside of newly constructed homes and buildings not delivered by drip or microspray is prohibited.

Commercial, industrial and institutional properties under Provision 5 of the Executive Order with an independent source of water supply (not served by a water supplier), are required under the draft regulation to either limit outdoor irrigation to two days per week or achieve a 25% reduction in water use. Often, these properties have large landscapes that would otherwise not be addressed by this regulation.

It will be very important as these provisions are implemented to ensure that existing trees remain healthy and do not present a public safety hazard. Guidance on the implementation of both prohibitions will be developed.

New Reporting Requirements

Total monthly water production and specific reporting on residential use and enforcement as laid out in the previously adopted emergency regulations will remain in effect. Because the conservation standard applies to total water production, the draft regulation expands the reporting to include information on water use in the commercial, industrial, and institutional sectors. Small water suppliers with fewer than 3,000 service connections will be required to submit a single report on December 15, 2015 that provides their water production from June-November 2015 and June-November 2013. In addition, they must report on the number of days per week outdoor irrigation is allowed.

Commercial, industrial, and institutional facilities with an independent source of supply (they are not served by a water supplier) will not be required to submit a report; however they should be prepared to demonstrate their compliance with the two day per week watering restriction or the 25% reduction in water use if requested to do so by the Board.

Compliance Assessment

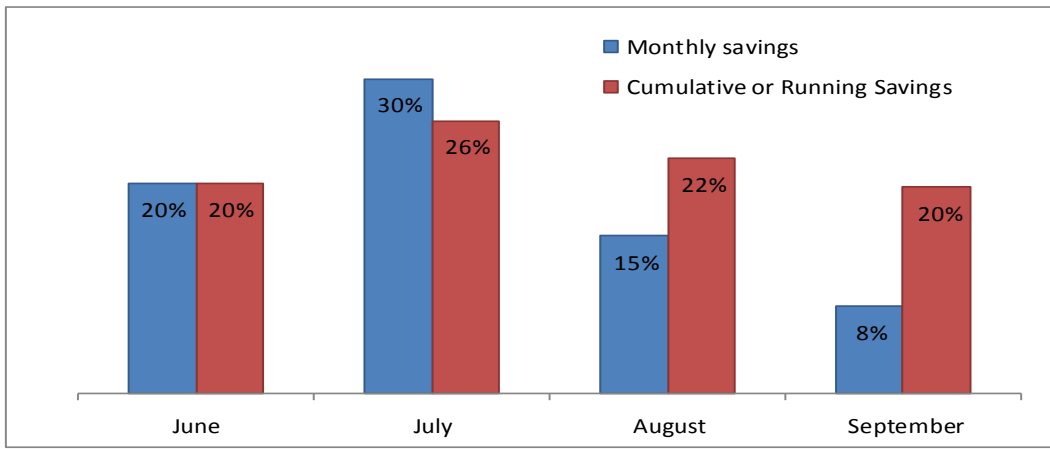
In many communities around the state, over half (and up to 80 percent) of total residential water use is for outdoor irrigation during the summer months. With summer just around the corner, bringing with it the greatest opportunity for making substantial conservation gains, immediate action is essential. As a result, the Board will begin assessing compliance with the submittal of the June monthly report on July 15, 2015.

Commenters pointed out that a month-by-month comparison of the percentage reduction in water use is confusing to the public because of the potentially wide variation in results due to temperatures, precipitation, and other factors. Several comments suggested using a 12-month rolling average; however a cumulative approach will also eliminate the wide swings that can occur in a month-by-month comparison and give a more accurate sense of progress. Beyond June, the Board will track compliance on a cumulative basis. Cumulative tracking means that conservation savings will be added together from one month to the next and compared to the amount of water used during the same months in 2013. This tracking will look like the sample graph below.



Example Comparison of Monthly Savings and Cumulative or Running Savings

	2013 Water Use	2015 Water Use	Monthly savings	Cumulative or Running Savings
June	1000	800	20%	20%
July	1500	1050	30%	26%
August	1200	1020	15%	22%
September	900	825	8%	20%



Two additional tools are included in the draft regulation to both expedite the investigation of water suppliers not meeting their conservation standard and require the implementation of actions to correct this situation. A new informational order is proposed that water suppliers would be required to respond to or face immediate enforcement. The proposed conservation order can be used to direct specific actions to correct non-compliance. Both of these tools are tailored to the emergency circumstances that the State finds itself in as a result of continuing drought conditions. Violation of an information or conservation order carries a penalty of up to \$500 per day.

The Board will work with water suppliers along the way that are not meeting their targets to implement actions to get them back on track. These actions could include changes to rates and pricing, restrictions on outdoor irrigation, public outreach, rebates and audit programs, leak detection and repair, and other measures. The Board may use its enforcement tools to ensure that water suppliers are on track to meet their conservation standards at any point during the 270 days that the emergency regulation is in effect.

In Conclusion

The Board received many comments on how to incorporate factors correlated with water use, such as climate, density, past conservation achievements, growth, and others. Many of these factors are accounted for in the State’s 20x2020 conservation approach adopted in 2009, and they are relevant to a longer-term conservation policy. While the draft regulation does not directly adjust the conservation standards based on climate or other factors, the increase in the number of tiers gives many communities in the hotter, inland areas a lower conservation standard than they would have otherwise been subject to.

There were also many comments that discussed how recycled water and other new sources of water supply should factor in to the conservation standard. Many suggested that potable recycled water supplies be excluded from the amount of water subject to the conservation standard and that a credit system be established to also recognize investments made in developing non-potable recycled water supplies (which are not included in Total Water Production). Both of these sources of supply add resiliency and are key to a more sustainable water future. These suggestions were not integrated into the draft regulations because while the State, our federal government partners and local governments have provided much needed capital to make these projects work; they are still sources of supply that need to be managed judiciously, especially in times of drought.

The staff appreciates the extensive input submitted from individuals, communities and organizations around the State. In particular, comments that targeted specific concerns and provided specific solutions were very well received. There has been a wealth of input on actions that are more appropriately dealt with over the longer term, not necessarily in this rulemaking. These suggestions will be considered as the Board moves forward in establishing permanent regulations for water usage, conservation, and reporting under Provision 9 of the Executive Order as well as additional temporary emergency regulations that may be needed if it does not rain significantly next winter.

Moulton Niguel Water District Water Shortage Contingency Plan

Account Type	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Residential (Single and Multi-Family)	- Stay within budget - No adjustments to bills for pool fills	- Stay within budget or pay penalty - No adjustments to bills	- Reduce outdoor water usage by 40% or pay penalty - No adjustments to bills	- Reduce outdoor water usage by 70% or pay penalty - No adjustments to bills	- Reduce indoor water use to 40 gallons per person per day - No outdoor water usage - No adjustments to bills
Commercial	- Stay within budget - No adjustments to bills for pool fills	- Stay within budget or pay penalty - No adjustments to bills	- Stay within budget or pay penalty - No adjustments to bills	- Stay within budget or pay penalty - No adjustments to bills	- Stay within budget or pay penalty - No adjustments to bills
Outdoor Irrigation -201-	- Stay within budget	- Stay within budget or pay penalty - No adjustments to bills	- Reduce outdoor water usage by 40% or pay penalty - No adjustments to bills	- Reduce water usage by 70% or pay penalty - No adjustments to bills	- No water use - No adjustments to bills
Recycled Water	- Stay within budget - No potable water for outdoor irrigation (i.e. golf courses)	- Stay within budget or pay penalty - No adjustments to bills	- Reduce water usage by 10% or pay penalty - No adjustments to bills	- Reduce water usage by 20% or pay penalty - No adjustments to bills	- Reduce water usage by 30% or pay penalty - No adjustments to bills

THERE ARE PENALTIES FOR EXCEEDING WATER BUDGETS IN STAGES 2-5

Order of Targeted Reductions:

1. Target inefficient users first
2. Outdoor water budget reduced in Stages 3 and 4
3. Indoor water budget reduced in Stage 5

Note: The District's Water Shortage Contingency Plan was adopted in the form of an ordinance and included in a public Proposition 218 notice. This ordinance is the legal structure by which penalties may be imposed if violated.



Moulton Niguel Water District **Water Conservation Best Management Practices**

Conservation through Best Management Practices (BMP's). Water is our most vital resource, the following water conservation BMPs have been established to conserve water, prevent waste or unreasonable use or unreasonable method of use of water, and preserve the District's water supplies. The BMPs shall be in effect at all times. The BMPs shall not apply to the use of recycled water. This is an excerpt from the Water Shortage Contingency Plan, Water Conservation BMP's.

- | | |
|--|--|
| <ol style="list-style-type: none"> 1. Installation of Water Conservation Devices 2. Standards for Water Conservation Devices 3. Limits on Watering Hours between the hours of 9:00 a.m. and 5:00 p.m. on any day 4. Limits on Water Duration 5. No Watering During Rain 6. Plant Low-Water Demand Plants and Trees 7. No Excessive Water Flow or Runoff 8. No Washing Down Hard or Paved Surfaces 9. Obligation to Fix Leaks, Breaks or Malfunctions 10. Re-circulating Water Required for Water Fountains and Decorative Water Features | <ol style="list-style-type: none"> 11. Limits on Washing Vehicles 12. Drinking Water Served Upon Request Only 13. Commercial Lodging Establishments Must Provide Option to Not Launder Linens Daily 14. No Installation of Single Pass Cooling Systems. 15. No Installation of Non-re-circulating Water Systems in Commercial Car Washes and Laundry Systems 16. Restaurants Required to Use Water Conserving Dish Wash Spray Valves 17. Swimming Pools and Spa Covers 18. Water Waste and Unreasonable Water Use Prohibited |
|--|--|

For a more information about MNWD's Water Shortage Contingency Plan and Best Management Practices, please visit our website at www.MNWD.com.



ORDINANCE NO. 15-01

AN ORDINANCE OF THE MOULTON NIGUEL WATER DISTRICT PRESCRIBING WATER CONSERVATION RULES AND REGULATIONS

WHEREAS, California Constitution article X, section 2 and California Water Code section 100 provide that because of conditions prevailing in the state of California (the "State"), it is the declared policy of the State that the general welfare requires that the water resources of the State shall be put to beneficial use to the fullest extent of which they are capable, the waste or unreasonable use of water shall be prevented, and the conservation of such waters is to be exercised with a view to the reasonable and beneficial use thereof in the interest of the people and the public welfare; and

WHEREAS, pursuant to California Water Code section 106, it is the declared policy of the State that the use of water for domestic use is the highest use of water and that the next highest use is for irrigation; and

WHEREAS, pursuant to California Water Code section 375, the Moulton Niguel Water District (the "District") is authorized to adopt and enforce a water conservation program to reduce the quantity of water used by persons within its jurisdiction for the purpose of conserving the water supplies of the District; and

WHEREAS, on January 17, 2014, the Governor Brown proclaimed a condition of statewide drought and called upon local agencies to take aggressive, immediate action to reduce water consumption locally and regionally by 20%; and

WHEREAS, because of the prevailing conditions in the State, the current statewide drought, and the declared policy of the State, the District hereby finds and determines that it is necessary and appropriate for the District to adopt, implement, and enforce a water conservation program to reduce the quantity of water used by consumers within the District to ensure that there is sufficient water for human consumption, sanitation, and fire protection; and

WHEREAS, pursuant to California Water Code section 350 the Board of Directors is authorized to declare a water shortage emergency to prevail within its jurisdiction when it finds and determines that the District will not be able to or cannot satisfy the ordinary demands and requirements of water consumers without depleting the water supply of the District to the extent that there would be insufficient water for human consumption, sanitation, and fire protection, and as more fully set forth in this chapter; and

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WHEREAS, in the event the District determines that it is necessary to declare that a water shortage emergency exists, the District will be authorized, pursuant to the Water Shortage Contingency Plan adopted pursuant to this Ordinance, to implement certain shortage response measures and a water conservation and regulatory program to regulate water consumption activities within the District and ensure that the water delivered in the District is put to beneficial use for the greatest public benefit, with particular regard to domestic use, including human consumption, sanitation, and fire protection, and that the waste or unreasonable use of water is prevented; and

WHEREAS, the District is authorized to prescribe and define by ordinance restrictions, prohibitions, and exclusions for the use of water during a threatened or existing water shortage and adopt and enforce a water conservation and regulatory program to: (i) prohibit the waste of District water or the use of District water during such period; (ii) prohibit use of water during such periods for specific uses that the District may from time to time find nonessential; and (iii) reduce and restrict the quantity of water used by those persons within the District for the purpose of conserving the water supplies of the District; and

WHEREAS, the District hereby finds and determines that as hereby amended, the District shall: (i) implement water conservation and water shortage response measures; (i) regulate the water consumption activities of persons within the District for the purposes of conserving and protecting the District's water supplies, reducing the quantity of water consumed, and deterring and preventing the waste or unreasonable use or unreasonable method of use of valuable water resources; and (ii) establish and collect regulatory fees and impose administrative penalties as set forth herein to accomplish these purposes and/or recover the costs of the District's water conservation and regulatory program; and

WHEREAS, the District hereby finds and determines that it is desirable to codify the rules and regulations governing its actions, and the actions of persons using and consuming water within the District, particularly during declared water shortages and water shortage emergencies, to protect the general welfare and the District's water supplies, and to reduce water consumption in accordance with the declared policies and laws of the State.

NOW THEREFORE BE IT ORDAINED by the Board of Directors of the Moulton Niguel Water District as follows:

Section 1. Findings and Determinations

The District hereby finds and determines that the above recitals are true and correct and incorporated herein.

Section 2. Amendments to District Rules and Regulations.

Moulton Niguel Water District's Article IV Rules and Regulations, Section 5.N., and Exhibit G, amendments to Section 5.N., are hereby amended in their entirety and replaced with the following rules and regulations governing water conservation:

N. Water Conservation

1. Findings and Intent

(A) **Findings.** The Board of Directors finds and determines that because of the prevailing conditions in the State, and the declared policy of the State, it is necessary and appropriate for the District to adopt, implement, and enforce a water conservation program to reduce the quantity of water used by persons within the District to ensure that there is sufficient water for human consumption, sanitation, and fire protection. The District further finds and determines that during periods of drought, water shortages, and water shortage emergencies the general welfare requires that the District maximize the beneficial use of its available water resources to the extent that it is capable, and that the waste or unreasonable use, or unreasonable method of use of water shall be prevented and the conservation of water is to be extended with the view to the reasonable and beneficial use thereof in the interests of the people of the District and for the public health, safety, and welfare.

(B) **Intent.** This Section 5.N. is intended to establish:

(1) permanent water conservation BMPs and response measures;

(2) rules, regulations, and restrictions on water use (the "Rules") to be implemented during declared water shortage stages, with increasing restrictions on water use in response to decreasing water supplies and worsening water shortage conditions.

(C) **Demand Management Through Rate Structure Design.** The District's water budget-based rate structure is designed and intended to be a water demand management tool and to proportionately recover the costs of providing water service within the District. The District's efforts in managing its water supply are best achieved through its water budget-based rate structure and the calculated water budgets provided to the District's customers.

(D) **Use of Property.** This Section 5.N. is not intended to repeal, abrogate, annul, impair or in any way interfere with the free use of property by covenant, deed, or other

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private agreement or with restrictive covenants running with the land to which the District provides water services.

2. Purposes and Scope

(A) **Purposes.** The purposes of this Section 5.N. are to:

- (1) protect the health, safety and welfare of the citizens and property owners of the District;
- (2) assure the maximum beneficial use of available water supplies;
- (3) attempt to provide sufficient water supplies to meet, at a minimum, the basic needs of human consumption, sanitation, and fire protection; and
- (4) authorize restrictions in water use during declared water shortages to maximize the beneficial use of water, and the imposition of penalties for violations of the Rules.

(B) **Scope.** The provisions of this Section 5.N. shall apply to all persons within the District and all property served by the District wherever situated. Nothing in this Section 5.N. is intended to affect or limit the ability of the District to respond to an emergency, including an emergency that affects the ability of the District to supply water.

3. Definitions

For the purposes of this Section 5.N., the following words, terms, and phrases shall have the following meanings:

(A) "Appellant" means the person appealing the imposition of a penalty imposed by the District for a violation of the Rules pursuant to this Section 5.N.

(B) "BMPs" mean best management practices.

(C) "Calculated water budget" means the water budget calculated by the District for each customer in accordance with the District's water rate structures.

(D) "Calculated recycled water budget" means the recycled water budget calculated by the District for each customer in accordance with the District's recycled water rate structure.

(E) "Ccf" means one hundred cubic feet.

(F) "District" means the Moulton Niguel Water District.

(G) "General Manager" means the General Manager of the District or her or his authorized designee.

(H) "Immediate emergency" shall have the meaning set forth in Section 5.N.6.(D).

(I) "19 Account customers" shall have the meaning set forth in Section 5.N.9.(A).

(J) "Person" means any natural person, firm, joint venture, joint stock company, partnership, public or private association, club, company, corporation, business trust, organization, public or private agency, government agency or institution, school district, college, university, any other user of water provided by the District, or the manager, lessee, agent, servant, officer or employee of any of them or any other entity which is recognized by law as the subject of rights or duties.

(K) "Plant factor" means the water needs of specific types of plants as established through guidelines provided by state law and the State Department of Water Resources' Model Water Efficient Landscape Ordinance established under Assembly Bill 1881.

(L) "Potable Water" means that water furnished to the customer which complies with federal and State drinking water regulations and standards, or any other applicable standards, for human consumption.

(M) "Property owner" or "owner" means the record owner of real property as shown on the most recently issued equalized assessment roll.

(N) "Recycled water" means water which, as a result of treatment of waste, is suitable for a direct beneficial use or a controlled use that would not otherwise occur and is therefore considered a valuable resource.

(O) "Rules" shall have the meaning set forth in in Section 5.N.1.(B)(2).

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(P) "RC9 Account customers" shall have the meaning set forth in Section 5.N.14(A)(1).

(Q) "State" means the state of California, including any department or regulatory agency thereof.

(R) "Water customer" or "customer" means a person who, according to the District's records, has an account with the District and receives water service or recycled water service to a parcel of property.

(S) "Water shortage emergency" means a condition existing within the District in which the ordinary water demands and requirements of persons within the District cannot be satisfied without depleting the water supply of the District to the extent that there would be insufficient water for human consumption, sanitation, and fire protection. A water shortage emergency includes both an immediate emergency, in which the District is unable to meet current water needs of persons within the District, as well as a threatened water shortage, in which the District determines that its future supply of water may not meet an anticipated future demand.

(T) "WUCOLS" shall have the meaning set forth in Section 5.N.8.(D).

4. Water Conservation Best Management Practices

(A) **Conservation through BMP's.** Recognizing that water is our most vital resource, the following water conservation BMPs have been established to conserve water, prevent the waste or unreasonable use or unreasonable method of use of water, and preserve the District's water supplies. The BMPs shall be in effect at all times. Except as otherwise provided in this Section 5.N.4., the BMPs shall not apply to the use of recycled water.

(B) **Installation of Water Conservation Devices.** No water shall be provided by the District for internal or external use to any residential, commercial, industrial, agricultural, recreational, governmental, or public building or structure of any kind which is constructed or altered and in which either internal or external irrigation or domestic water piping or water fixtures are to be installed, extended, or altered in any way, including, but not limited to, any plumbing, water piping, or water fixtures for which a construction permit is required to be obtained from the County of Orange or its successor, or for which District approval of plans and service applications are required, unless the new, extended, or altered plumbing, water piping, or other water using facilities conform to the requirements and standards of this Section 5.N.4.(C) of the Rules and Regulations.

(C) **Standards for Water Conservation Devices.** The required water conservation devices and standards of the District are those set forth on Exhibit "F" to these Rules and Regulations. Nothing herein provided shall be deemed to relieve any person from compliance with the plumbing code of the County of Orange or any other state or local plumbing or building requirements.

(D) **Limits on Watering Hours.** Watering or irrigating any lawn, landscape or other vegetated area with potable water should be avoided between the hours of 9:00 a.m. and 5:00 p.m. on any day, except by use of a hand-held bucket or similar container, a hand-held hose equipped with an automatic shut-off nozzle or device, or for very short periods of time for the express purpose of adjusting or repairing an irrigation system.

(E) **Limits on Water Duration.** Watering or irrigating any lawn, landscape or other vegetated area with potable water using a landscape irrigation system or watering device that is not continuously attended should be limited to no more than eight minutes of watering per station every other day during the summer and less than six minutes during the spring, fall and winter. This subsection does not apply to landscape irrigation systems that exclusively use very low-flow irrigation systems where no emitter produces more than two gallons of water per hour.

(F) **No Watering During Rain.** Watering or irrigating any lawn, landscape or other vegetated area with potable water should be avoided when it is raining.

(G) **Plant Low-Water Demand Plants and Trees.** When installing new landscaping, plant only low-water demand trees and plants. New turf should only be installed for functional purposes. Functional turf is defined as turf used for athletic or high traffic areas.

(H) **No Excessive Water Flow or Runoff.** Watering or irrigating any lawn, landscape or other vegetated area in a manner that causes or allows excessive flow or runoff of potable or recycled water onto an adjoining sidewalk, driveway, street, alley, gutter or ditch should be avoided.

(I) **No Washing Down Hard or Paved Surfaces.** Washing down hard or paved surfaces, including but not limited to sidewalks, walkways, driveways, parking areas, tennis courts, patios or alleys, should be avoided except when necessary to alleviate safety or sanitary hazards, and then only by use of a hand-held bucket or similar container, a hand-held hose equipped with an automatic shut-off device or a low-volume, high-pressure cleaning machine equipped to recycle any water used.

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(J) **Obligation to Fix Leaks, Breaks or Malfunctions.** Excessive use, loss or escape of potable or recycled water through breaks, leaks or other malfunctions in the water user's plumbing or distribution system should be avoided for any period of time after such escape of water should have reasonably been discovered and corrected. It is unlawful for any person to permit for the forgoing for more than five days after receiving notice from the District of any such break, leak, or other malfunction.

(K) **Re-circulating Water Required for Water Fountains and Decorative Water Features.** Operating a water fountain or other decorative water feature that does not use re-circulated water is prohibited.

(L) **Limits on Washing Vehicles.** Using potable water to wash or clean a vehicle, including but not limited to any automobile, truck, van, bus, motorcycle, boat or trailer, whether motorized or not, should be avoided, except by use of a hand-held bucket or similar container, a hand-held hose equipped with an automatic water shut-off nozzle or a low volume power washer with an automatic water shut-off nozzle. This paragraph does not apply to commercial car washes or the washing of vehicles regulations where the health, safety, and welfare of the public is contingent upon frequent vehicle cleaning, such as garbage trucks and vehicles used to transport food and perishables.

(M) **Drinking Water Served Upon Request Only.** Eating or drinking establishments, including but not limited to a restaurant, hotel, café, cafeteria, bar, club or other public place where food or drinks are sold, served, or offered for sale, should only provide drinking water to persons when expressly requested.

(N) **Commercial Lodging Establishments Must Provide Option to Not Launder Linens Daily.** Hotels, motels and other commercial lodging establishments should provide customers the option of not having towels and linens laundered daily. Commercial lodging establishments should prominently display notice of this option in each bathroom using clear and easily understood language.

(O) **Installation of Single Pass Cooling Systems.** Single pass cooling systems shall not be installed in buildings requesting new potable water service.

(P) **Installation of Non-re-circulating Water Systems in Commercial Car Washes and Laundry Systems.** Non-recirculating water systems in commercial car washes and laundry systems shall not be installed.

(Q) **Restaurants Required to Use Water Conserving Dish Wash Spray Valves.** Food preparation establishments, such as restaurants or cafés, shall not use non-water conserving dish wash spray valves.

(R) **Swimming Pools and Spa Covers.** Property owners who have a swimming pool or a spa are encouraged to cover the facilities to minimize water loss due to evaporation.

(S) **Water Waste and Unreasonable Water Use Prohibited.** The waste or unreasonable use or unreasonable method of use of water by any person shall be prohibited at all times.

5. Water Shortages

(A) **Reductions in Water Supply.** Should the BMPs be inadequate to protect the District's potable water supply, the District Board of Directors reserves the right to implement further mandatory Rules to reduce the amount of water used within the District. The Rules are necessary to respond to any significant reductions to the District's water supply as a result of drought, natural disasters, regulatory action, and planned or unplanned potable water shortages, including but not limited to, shortages arising from the following circumstances or events that are or may impact the District's water supply:

(1) the District's wholesale water supplier has determined that a drought, water shortage, or water shortage emergency exists or has implemented or taken other actions requiring a reduction in water demand;

(2) Metropolitan Water District of Southern California ("MWD") Water Supply Allocation Plan implementation or other actions requiring a reduction in water demand;

(3) regional or statewide importation or local distribution systems or facility(ies) have failed or have been shut down (e.g., a main break, reservoir, pipeline, canal, or other distribution or conveyance system failure);

(4) alternative water supplies are limited or unavailable;

(5) the State has determined that a drought, water shortage or water shortage emergency exists;

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(6) the State has implemented restrictions on the use of water or reduced or restricted the delivery of wholesale water to the District; and

(7) any other natural disaster that impacts the availability of water to the District.

(B) **Application.** The provisions of this Section 5.N. shall apply to all persons using potable water within the District, regardless of whether any person using potable water or recycled water has a contract or account for water service.

6. Declaration of Water Shortages

(A) **District Water Supply.** The General Manager shall monitor the projected supply and demand for water by the District's customers on a frequent basis during periods of a water shortage or drought and shall recommend to the Board of Directors the extent of the conservation measures required through the implementation and/or termination of particular water shortage stages to prudently plan and supply water to its customers. The General Manager will recommend the appropriate stage of response to a water shortage based on the best information available at the time. In addition to the circumstance and events set forth in Section 5.N.5(A), conditions that may be considered include, but are not limited to:

(1) District water supply conditions and storage levels;

(2) statewide water supply conditions;

(3) local water supply and demand conditions; and

(4) actions by surrounding wholesale and retail water agencies; and

(5) any other conditions the General Manager believes will adversely affect the District's available water supply.

(B) **Declaration of Water Shortage Stages.** The declaration of any water shortage stage declared pursuant to Section 5.N.7 shall be made by the recommendation of the General Manager and the adoption of a resolution of the Board of Directors. The water shortage stage designated shall become effective immediately upon adoption of the resolution by the Board of Directors.

(C) **Notice and Publication.** Within ten (10) days of the adoption of the resolution declaring the applicable water shortage stage, the District shall make a public announcement of the applicable water shortage stage, which shall be published a minimum of three (3) times in a daily newspaper of general circulation and posted on the District's website.

(1) Such declaration and notice shall provide the extent, terms, and conditions respecting the use and consumption of water in accordance with the applicable water shortage stage as provided in this Section 5.N.

(2) The District will periodically provide the public with information about the Rules, including conditions under which each water shortage stage is to be initiated or terminated and the conservation response measures to be implemented in each stage.

(3) Upon such declaration and publication of the notice required herein, due and proper notice shall be deemed to have been given each and every person supplied water within the District of the Rules governing the applicable water shortage stage.

(D) **Declaration of Water Shortage Emergency.** Excepting in event of a breakage or failure of a dam, pump, pipe line or conduit causing an immediate emergency (an "immediate emergency"), the declaration of a water shortage emergency during any water shortage stage shall be made in accordance with California Water Code sections 350 *et seq.*

(1) The declaration of a water shortage emergency other than an immediate emergency shall be made only after a public hearing at which consumers have an opportunity to be heard to protest the declaration and to present their respective needs to the Board of Directors.

(2) Notice of the time and place of the public hearing shall be published pursuant to Section 6061 of the Government Code at least seven days prior to the date of the public hearing in a newspaper printed, published, and circulated within the area in which the water supply is distributed, or if there is no such newspaper, in any newspaper printed, published, and circulated in the Orange County.

(3) After the close of the public hearing, the Board of Directors shall be authorized to adopt a resolution declaring a water shortage emergency. The resolution shall take effect immediately upon adoption.

(4) After adopting the resolution, the declaration of the Board of Directors of the water shortage emergency shall be made by public announcement on the

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District's website and shall be published a minimum of one time in a newspaper of general circulation.

(5) The Rules on water use during the water shortage emergency shall remain in full force and effect during the period of the emergency and until the supply of water available for distribution within the District's service area has been replenished or augmented. After adopting the resolution, the declaration of the Board of Directors of the appropriate water shortage stage shall be made by public announcement on the District's website and shall be published a minimum of one time in a newspaper of general circulation.

(E) **Determination of Immediate Emergency.** Notwithstanding the forgoing, if an immediate emergency occurs and the Board of Directors cannot meet in time to act to protect the public interest pursuant to this Section 5.N., the General Manager is hereby authorized and directed to implement such provisions of this Section 5.N. upon his or her written determination that the District cannot supply adequate water to meet the ordinary demands of water consumers, and that such implementation is necessary to protect the public health and safety.

(1) The implementation of any such provisions shall take effect immediately upon making a public announcement of the immediate emergency and publication of such immediate emergency on the District's website.

(2) Such written determination shall be delivered to the Board of Directors and considered at a general or special meeting for review, revocation, or ratification. Such meeting shall be held upon the earliest date that a quorum of the Board of Directors is available.

(3) At the Board of Directors meeting, the General Manager shall update the Board of Directors on the severity and length of the immediate emergency.

(4) During an immediate emergency, the District may specify temporary restrictions on the use of potable and recycled water. Any person who willfully fails to comply with those temporary restrictions may be subject to an administrative penalty of \$500 per offense and have his or her water meter locked by the District.

(F) **Implementation of Water Shortage Stages.** As water supply conditions either deteriorate or improve, the General Manager will return to the Board of Directors to recommend, as appropriate, revising the appropriate water shortage stage of response.

(1) It shall not be necessary to implement any water shortage stage prior to another; the water shortage stages may be implemented in any reasonable order. Except for a water shortage emergency or immediate emergency, any stage implemented shall be in effect for up to 120 days, at which point the Board shall determine whether to continue a water shortage stage.

(2) The District will implement an appropriate stage based on current water conditions. Higher stages will be implemented as shortages continue and/or if customers' responses to the water shortage measures in effect do not bring about desired water savings.

(3) Restrictions, penalties and enforcement will build on each other as higher stages are implemented. All prior tier reductions and variance procedure modifications in lower stages are cumulative into the higher stages.

(G) **Actions or Restrictions by the State or Other Agencies.** In the event the State or other agencies, through executive action, emergency legislation or other actions, impose conditions, requirements, or procedures that are not included in this Section 5.N., the General Manager is authorized to implement such measures as are reasonably required to bring the District's actions in each stage into functional conformity with such conditions, requirements, or procedures.

(H) **Public Outreach.** When the Board of Directors determines that a water shortage condition exists, any or all of the following notification procedures may be implemented:

(1) Notify the general public stakeholders, elected officials and other key decision-makers regarding the water shortage condition, actions to be taken, goals customers are intended to achieve, and how these actions and goals will be implemented.

(2) The public at large will be informed of the situation and actions the District will be taking. Communications may occur through any of the following: billing inserts, special mailings, telephone contact, e-mail, social media, roadway signage, water conservation booths, and other booths in the community, community association meetings, newsletters, and education programs, etc. Literature appropriate to the drought circumstance will be provided regarding the water shortage condition, conservation methods, and water-savings devices.

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(3) Use of all forms of media may be employed. This would include public service announcements on radio and cable television, social media as well as earned media, and advertisements in local newspapers.

(4) The District's web site, www.MNWD.com, will be the central location for messaging and customer communications

7. Water Shortage Stage 1 – Potable Water Reductions

(A) **Voluntary Reductions.** During a Water Shortage Stage 1 ("Stage 1"), the District's conservation efforts will be focused on voluntary reductions in potable water use. Potable water customers may reduce demand by following the District's BMPs.

(B) **Refills of Swimming Pools.** Any customer who refills a swimming pool shall not receive a variance to his or her calculated water budget and shall be billed for water used according to the applicable tier for the corresponding use. No bill variance adjustments shall be granted.

8. Water Shortage Stage 2 – Mandatory Potable Water Use Rules

(A) **Mandatory Rules Governing Potable Water Budgets.** During a Water Shortage Stage 2 ("Stage 2"), all potable water customers shall be prohibited from using potable water in excess of their calculated water budget.

(B) **Penalties.** During a Stage 2, any potable water customer who willfully uses water in excess of his or her calculated potable water budget shall be in violation of these Rules and shall pay an administrative penalty of \$7.43 for each ccf, or portion thereof, of potable water used in excess of his or her calculated potable water budget.

(1) Such penalty shall be in addition to the water service fees the District imposes for the potable water delivered to the customer.

(C) **Refills of Swimming Pools.** During a Stage 2, any customer who refills a swimming pool shall not receive a variance to their calculated water budget and shall be billed for water used according to the applicable tier for the corresponding use. No bill variance adjustments shall be granted.

(D) **Plant Variances.** During a Stage 2, any person installing new landscaping, a new plant variance will only be granted for California friendly vegetation as

defined by the Water Use Classifications of Landscape Species (“WUCOLS”) to have low or very low watering needs for the South Coastal Region. The classifications can be found at http://ucanr.edu/sites/WUCOLS/Plant_Search/.

9. Water Shortage Stage 3 – Mandatory Potable Water Use Rules

(A) **Recalculation of Potable Water Budgets.** During a Water Shortage Stage 3 (“Stage 3”), potable water customers’ water budgets shall be recalculated as follows:

(1) all single-family residential, multi-family residential, and potable irrigation customers, except for irrigation customers in high traffic areas (“I9 Account customers”), shall have their outdoor water budgets reduced by 40%, resulting in outdoor water budgets being recalculated using a plant factor of 0.42.

(2) I9 Account customers shall have their outdoor water budgets reduced by 40%, resulting in outdoor water budgets recalculated using a plant factor of 0.6.

(B) **Mandatory Rules Governing Potable Water Budgets.** During a Stage 3, all potable water customers shall be prohibited from using water in excess of their recalculated water budgets.

(C) **Penalties.** During a Stage 3, any potable water customer who willfully uses water in excess of his or her recalculated water budget shall be in violation of these Rules and shall pay an administrative penalty of \$7.43 for each ccf, or portion thereof, of water used in excess of his or her recalculated water budget.

(1) The penalty shall be in addition to the water service fees the District imposes for the water delivered to the customer.

(2) The penalty corresponds to water usage above the modifications to tier widths.

(D) **Refills of Swimming Pools.** During a Stage 3, any customer who refills a swimming pool shall not receive a variance to their calculated water budget and shall be billed for water used according to the applicable tier for the corresponding use. No bill variance adjustments shall be granted.

(E) **Plant Variances.** During a Stage 3, any person installing new landscaping, a new plant variance will only be granted for California friendly vegetation as

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defined by the WUCOLS to have low or very low watering needs for the South Coastal Region. The classifications can be found at http://ucanr.edu/sites/WUCOLS/Plant_Search/.

10. Water Shortage Stage 4 – Mandatory Potable Water Use Rules

(A) **Recalculation of Potable Water Budgets.** During a Water Shortage Stage 4 (“Stage 4”), potable water customers’ water budgets shall be recalculated as follows:

(1) single-family residential, multi-family residential, and potable irrigation customers, except for I9 Account customers, shall have their outdoor water budgets reduced by 70%, resulting in outdoor water budgets being recalculated using a plant factor of 0.21; and

(2) I9 Account customers shall have their outdoor water budgets recalculated using a plant factor of 0.30.

(B) **Mandatory Rules Governing Potable Water Budgets.** During a Stage 4, all potable water customers shall be prohibited from using water in excess of their recalculated water budgets.

(C) **Penalties.** During a Stage 4, any potable water customer who willfully uses water in excess of his or her recalculated water budget shall be in violation of these Rules and shall pay an administrative penalty of \$7.43 for each ccf, or portion thereof, of water used in excess of his or her recalculated or assigned water budget.

(1) Such penalty shall be in addition to the water service fees the District imposes for the water delivered.

(2) The penalty corresponds to water usage above the modifications to tier widths.

(D) **Refills of Swimming Pools.** During a Stage 4, any customer who refills a swimming pool shall not receive a variance to their calculated water budget and shall be billed for water used according to the applicable tier for the corresponding use. No bill variance adjustments shall be granted.

(E) **Plant Variances.** During a Stage 4, any person installing new landscaping, a new plant variance will only be granted for California friendly vegetation as

defined by the WUCOLS to have low or very low watering needs for the South Coastal Region. The classifications can be found at http://ucanr.edu/sites/WUCOLS/Plant_Search/.

11. Water Shortage Stage 5 – Mandatory Potable Water Use Rules

(A) **Recalculation of Potable Water Budgets.** During a Water Shortage Stage 5 (“Stage 5”), potable customers’ water budgets shall be recalculated as follows:

(1) all single-family residential and multi-family residential customers shall have their indoor water budgets reduced from 60 gallons per capita per day to 40 gallons per capita per day;

(2) all Commercial potable water customers shall be prohibited from using potable water in excess of their calculated water budgets;

(B) **Mandatory Rules Governing Potable Water Budgets.** During a Stage 5, all single-family residential and multi-family residential customers shall be prohibited from using water in excess of their recalculated indoor water budgets. Outdoor budgets will be reduced to zero.

(C) **Mandatory Rules Governing Potable Water Use.** During a Stage 5, all potable water irrigation customers shall be prohibited from using potable water. All outdoor irrigation with potable water shall be prohibited within the District’s service area.

(D) **Penalties.** The following penalties shall be imposed for any violation of the Rules set forth in this Section 5.N.11:

(1) Any single-family residential and multi-family residential customer who willfully uses potable water in excess of his or her recalculated indoor water budget shall be in violation of these Rules and shall pay an administrative penalty of \$7.63 for each ccf, or portion thereof, of water used in excess of his or her recalculated indoor water budget.

(2) Any commercial customer who uses potable water in excess of his or her calculated water budget shall be subject to an administrative penalty of \$7.43 for each ccf, or portion thereof, of water used in excess of his or her calculated water budget.

(3) Any potable irrigation customer who uses potable water shall be subject to an administrative penalty of \$9.04 for each ccf, or portion thereof of potable water used and shall have its water meter locked off.

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(4) All penalties imposed pursuant to this Section 5.N.11. shall be in addition to the water service fees the District imposes for the water delivered to the forgoing customers.

(5) The penalties correspond to water usage above the modifications to tier widths.

(D) **Refills of Swimming Pools.** No customer shall refill a swimming pool during a Stage 5.

(E) **Plant Variances.** During a Stage 5, no customer shall install new landscaping.

12. Water Shortage Stage 1 – Voluntary and Mandatory Recycled Water Use Rules

(A) **Voluntary Reductions.** During a Stage 1, the District's conservation efforts will be focused on voluntary reductions in recycled water use. Recycled water customers may reduce demand by following the District's BMPs.

(B) **Mandatory Rules Governing Potable Water Use.** During a Stage 1, recycled water customers shall be prohibited from using potable water for outdoor irrigation.

13. Water Shortage Stage 2 – Mandatory Recycled Water Use Rules

(A) **Mandatory Rules Governing Recycled Water Budgets.** During a Stage 2, all recycled water customers shall be prohibited from using recycled water in excess of their calculated recycled water budget.

(B) **Penalties.** During a Stage 2, any recycled water customer who willfully uses recycled water in excess of his or her calculated recycled water budget shall be subject to an administrative penalty of \$7.04 for each ccf, or portion thereof, of recycled water used in excess of his or her assigned recycled water budget. Such penalties shall be in addition to the recycled water service fees the District imposes for the recycled water delivered to the customer.

14. Water Shortage Stage 3 – Mandatory Recycled Water Use Rules

(A) **Recalculation of Recycled Water Budgets.** During a Stage 3, all recycled water customers' recycled water budgets shall be recalculated as follows:

(1) All recycled water customers, except recycled water customers in high traffic areas ("RC9 Account customers"), shall have their outdoor recycled water budget reduced by 10%, resulting in outdoor recycled water budgets recalculated using a plant factor of 0.72.

(2) All RC9 Account customers shall have their outdoor recycled water budget reduced by 10%, resulting in outdoor recycled water budgets recalculated using a plant factor of 0.90.

(B) **Mandatory Rules Governing Recycled Water Budgets.** During a Stage 3, all Recycled Water customers shall be prohibited from using recycled water in excess of their recalculated recycled water budget.

(C) **Penalties.** During a Stage 3, any recycled water customer who uses recycled water in excess of his or her recalculated recycled water budget shall be subject to an administrative penalty of \$7.04 for each ccf, or portion thereof, of recycled water used in excess of his or her recalculated recycled water budget.

(1) Such penalties shall be in addition to the recycled water service fees the District imposes for the recycled water delivered to the customer.

(2) The penalty corresponds to recycled water used above the modifications to tier widths. By way of example, recycled water used in excess 90% of Tier 1 for recycled water customers (except RC9 Account customers) shall be charged an additional penalty of \$7.04 for each ccf or portion thereof.

15. Water Shortage Stage 4 – Mandatory Recycled Water Use Rules

(A) **Recalculation of Recycled Water Budgets.** During a Stage 4, all recycled water customers' recycled water budgets shall be recalculated as follows:

(1) All Recycled Water customers, except for RC9 Account customers, shall have their recycled water budgets reduced by 20%, resulting in outdoor recycled water budgets recalculated using a plant factor of 0.64.

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(2) RC9 Account customers shall have their outdoor recycled water budgets reduced by 20%, resulting in outdoor recycled water budgets recalculated using a plant factor of 0.80.

(B) **Mandatory Rules Governing Recycled Water Budgets.** During a Stage 4, all recycled water customers shall be prohibited from using recycled water in excess of their recalculated recycled water budget.

(C) **Penalties.** During a Stage 4, any recycled water customer who uses recycled water in excess of his or her recalculated recycled water budget shall be subject to an administrative penalty of \$7.04 for each ccf, or portion thereof, of recycled water used in excess of his or her recalculated recycled water budget.

(1) Such penalties shall be in addition to the recycled water service fees the District imposes for the recycled water delivered.

(2) The penalty corresponds to recycled water use above the modifications to tier widths. By way of example, recycled water use above 80% of Tier 1 for recycled water customers (except for RC9 Account customers) is charged a penalty of \$7.04.

16. Water Shortage Stage 5 – Mandatory Recycled Water Use Rules

(A) **Recalculation of Recycled Water Budgets.** During a Stage 5, all recycled water customers' recycled water budgets shall be recalculated as follows:

(1) All recycled water customers, except for RC9 Account customers, shall have their outdoor recycled water budget reduced by 30%, resulting in outdoor recycled water budgets recalculated using a plant factor of 0.56.

(2) All RC9 Account customers shall have their outdoor recycled water budget reduced by 30%, resulting in outdoor recycled water budgets recalculated using a plant factor of 0.70.

(B) **Mandatory Rules Governing Recycled Water Budgets.** During a Stage 5, all recycled water customers shall be prohibited from using recycled water in excess of their recalculated recycled water budget.

(C) **Penalties.** During a Stage 5, any recycled water customer who uses recycled water in excess of his or her recalculated recycled water budget shall be subject to

an administrative penalty of \$7.04 for each ccf, or portion thereof, of recycled water used in excess of his or her recalculated recycled water budget.

(1) Such penalties shall be in addition to the recycled water service fees the District imposes for the recycled water delivered.

(2) The penalty corresponds to recycled water use above the modifications to tier widths. By way of example, recycled water use above 70% of Tier 1 for recycled water customers (except for RC9 Account customers) shall be charged a penalty of \$7.04.

17. Violations and Remedies

(A) **Misdemeanor Violations.** It shall be unlawful for any person to willfully violate the provisions of this Section 5.N.. A violation of any of these provisions is a misdemeanor in accordance with California Water Code section 377.

(B) **Other Remedies.** In addition to any other remedies provided in this Section 5.N or available under applicable law, the District may alternatively seek injunctive relief in the Superior Court or take enforcement action, including discontinuing or appropriately limiting water service to any customer, for violations of this Section 5.N. All remedies provided herein shall be cumulative and not exclusive.

18. Notice and Collection of Penalties

(A) **Notice and Due Process.** As set forth in Section 5.N.6(C), upon the declaration of a water shortage stage and publication of the notice required herein, due and proper notice shall be deemed to have been given each and every person supplied water within the District of the Rules governing the applicable water shortage stage.

(B) **Collection of Penalties.** Any penalty imposed pursuant to the Rules of any applicable water shortage stage set forth in this Section 5.N. may be collected on a customer's water bill. Any penalty shall be applicable to water used in violation of the Rules during the first complete billing cycle after the declaration of the applicable water shortage stage.

(C) **Notice of Violation.** The receipt of a water bill with any applicable penalties shall serve as notice of violation of the District's Rules.

19. Appeal Procedures

Any person (an "Appellant") who wishes to appeal the imposition of an administrative penalty imposed by the District pursuant to this Section 5.N. shall comply with the following procedures:

(A) **Appeal Request Form.** An Appeal Request form shall be submitted to the Conservation Department.

(1) Appeal Request forms may be obtained at the District's Main Office or downloaded from the District's website at www.MNWD.com.

(2) An Appeal Request form shall be received by the District no later than thirty calendar days from the date that the Appellant's water bill for the four-week period in which the penalty or penalties were imposed is due.

(B) **Additional Documentation.** Additional documentation may be requested at the discretion of the District. Such documentation may include, but is not limited to, school records, driver's licenses, business licenses, lease agreements.

(C) **Site Survey.** After an Appeal Request form has been received, a site survey may be required by District staff to verify the irrigated square footage of the property where the water was delivered. The site survey will be at no charge to the person and will require the person who submitted the Appeal Request form to be present.

(D) **District Response.** A response to an Appeal Request shall be provided by the District within thirty calendar days from receipt of the Appeal Request form.

(E) **Review of Denial of Appeal Request.** If an Appeal Request is denied, the Appeal Request form may be resubmitted by the Appellant for review by the District's Assistant General Manager. The Decision by the District's Assistant General Manager shall be final.

Section 3. Conflicting Provisions

If provisions of Section 5.N. are in conflict with each other, other provisions of the Article IV, any other resolution or ordinance of the District, or any State law or regulation, the more restrictive provisions shall apply.

Section 4. Severability

If any provision, section, subsection, sentence, clause or phrase or sections of this Ordinance, or the application of same to any person or set of circumstances, is for any reason held to be unconstitutional, void or invalid, the invalidity of the remaining portions of this Ordinance shall not be affected, it being the intent of the Board of Directors in adopting this Ordinance that no portions, provisions, or regulations contained herein shall become inoperative, or fail by reason of the unconstitutionality of any other provision hereof, and all provisions of this Ordinance are declared to be severable for that purpose.

Section 5. Effective

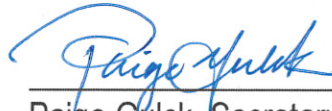
This Ordinance shall be effective immediately upon adoption.

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APPROVED, ADOPTED and SIGNED this 19th day of February, 2015.



Donald Froelich, President
MOULTON NIGUEL WATER DISTRICT
and the Board of Directors thereof



Paige Gulck, Secretary
MOULTON NIGUEL WATER DISTRICT
and the Board of Directors thereof

