



PALMDALE WATER DISTRICT
A CENTURY OF SERVICE

BOARD OF DIRECTORS

ROBERT E. ALVARADO
Division 1

JOE ESTES
Division 2

MARCO HENRIQUEZ
Division 3

KATHY MAC LAREN
Division 4

VINCENT DINO
Division 5

DENNIS LaMOREAUX
General Manager

ALESHIRE & WYNDER LLP
Attorneys



May 23, 2018

**AGENDA FOR REGULAR MEETING
OF THE BOARD OF DIRECTORS
OF THE PALMDALE WATER DISTRICT
to be held at the District's office at 2029 East Avenue Q, Palmdale
TUESDAY, MAY 29, 2018
6:00 p.m.**

NOTES: To comply with the Americans with Disabilities Act, to participate in any Board meeting please contact Dawn Deans at 661-947-4111 x1003 at least 48 hours prior to a Board meeting to inform us of your needs and to determine if accommodation is feasible.

Additionally, an interpreter will be made available to assist the public in making **comments** under Agenda Item No. 4 and any action items where public input is offered during the meeting if requested at least 48 hours before the meeting. Please call Dawn Deans at 661-947-4111 x1003 with your request. (PWD Rules and Regulations Section 4.03.1 (c))

Adicionalmente, un intérprete estará disponible para ayudar al público a hacer **comentarios** bajo la sección No. 4 en la agenda y cualquier elemento de acción donde se ofrece comentarios al público durante la reunión, siempre y cuando se solicite con 48 horas de anticipación de la junta directiva. Por favor de llamar Dawn Deans al 661-947-4111 x1003 con su solicitud. (PWD reglas y reglamentos sección 4.03.1 (c))

Agenda item materials, as well as materials related to agenda items submitted after distribution of the agenda packets, are available for public review at the District's office located at 2029 East Avenue Q, Palmdale (Government Code Section 54957.5). Please call Dawn Deans at 661-947-4111 x1003 for public review of materials.

PUBLIC COMMENT GUIDELINES: The prescribed time limit per speaker is three-minutes. Please refrain from public displays or outbursts such as unsolicited applause, comments, or cheering. Any disruptive activities that substantially interfere with the ability of the District to carry out its meeting will not be permitted and offenders will be requested to leave the meeting. (PWD Rules and Regulations, Appendix DD, Sec. IV.A.)

Each item on the agenda shall be deemed to include any appropriate motion, resolution, or ordinance to take action on any item.

- 1) Pledge of Allegiance/Moment of Silence.
- 2) Roll Call.
- 3) Adoption of Agenda.

- 4) Public comments for non-agenda items.
- 5) Presentations:
 - 5.1) None at this time.
- 6) Action Items - Consent Calendar (The public shall have an opportunity to comment on any action item on the Consent Calendar as the Consent Calendar is considered collectively by the Board of Directors prior to action being taken.)
 - 6.1) Approval of minutes of regular meeting held May 14, 2018.
 - 6.2) Payment of bills for May 29, 2018.
- 7) Action Items – Action Calendar (The public shall have an opportunity to comment on any action item as each item is considered by the Board of Directors prior to action being taken.)
 - 7.1) Consideration and possible action on Resolution No. 18-5 being a Resolution of the Board of Directors of the Palmdale Water District Authorizing the Issuance by the Palmdale Water District Public Financing Authority of Water Revenue Bonds in an Aggregate Principal Amount Not to Exceed \$15,000,000 and Approving Certain Documents in Connection Therewith. (Finance Manager Williams/NHA Advisors/Finance Committee)
 - 7.2) Adjourn to Public Financing Authority Board meeting. (President Dino)
 - 7.3) Consideration and possible action on budget adjustment for 100-year anniversary celebration. (\$40,000.00 – Non-budgeted – General Manager LaMoreaux/Ad Hoc 100th Anniversary Committee)
 - 7.4) Consideration and possible action on outreach activities for 2018. (Public Affairs Director Shay)
 - a) Update on 100th year anniversary events.
 - b) Outreach plans for 2018.
 - c) PWD Water Ambassadors Academy.
 - d) Upcoming events.
 - e) Outreach recommendations from Directors.
 - 7.5) Consideration and possible action on authorization of the following conferences, seminars, and training sessions for Board and staff attendance within budget amounts previously approved in the 2018 Budget:
 - a) None at this time.
- 8) Information Items:
 - 8.1) Reports of Directors:
 - a) Meetings/General Report.

- b) Standing Committee/Assignment Reports (Chair):
 - 1) Palmdale Recycled Water Authority.
- 8.2) Report of General Manager.
 - a) May 2018 written report of activities through April 2018.
- 8.3) Report of General Counsel.
- 9) Public comments on closed session agenda matters.
- 10) Break prior to closed session.
- 11) Closed session under:
 - 11.1) Conference with Legal Counsel – Existing Litigation: A closed session will be held, pursuant to Government Code §54956.9 (d)(1), to confer with Special Litigation Counsel regarding existing litigation to which the District is a party. The title of such litigation is as follows: *Antelope Valley Ground Water Cases*.
- 12) Public report of any action taken in closed session.
- 13) Board members' requests for future agenda items.
- 14) Adjournment.



DENNIS D. LaMOREAUX,
General Manager

DDL/dd

P A L M D A L E W A T E R D I S T R I C T
B O A R D M E M O R A N D U M

DATE: May 22, 2018 **May 29, 2018**
TO: BOARD OF DIRECTORS **Board Meeting and**
FROM: Mr. Michael Williams, Finance Manager/CFO **Public Financing Authority Meeting**
VIA: Mr. Dennis D. LaMoreaux, General Manager
RE: ***AGENDA ITEM NO. 7.1 – CONSIDERATION AND POSSIBLE ACTION ON RESOLUTION NO. 18-5 BEING A RESOLUTION OF THE BOARD OF DIRECTORS OF THE PALMDALE WATER DISTRICT AUTHORIZING THE ISSUANCE BY THE PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY OF WATER REVENUE BONDS IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$15,000,000 AND APPROVING CERTAIN DOCUMENTS IN CONNECTION THEREWITH. (FINANCE MANAGER WILLIAMS/NHA ADVISORS/FINANCE COMMITTEE)***

AGENDA ITEM NO. 4.2 (PUBLIC FINANCING AUTHORITY) – CONSIDERATION AND POSSIBLE ACTION ON RESOLUTION NO. 2018-1 BEING A RESOLUTION OF THE PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$15,000,000 WATER REVENUE BONDS, SERIES 2018A, APPROVING THE EXECUTION OF CERTAIN DOCUMENTS AND AUTHORIZING CERTAIN ACTS IN CONNECTION THEREWITH. (FINANCE MANAGER WILLIAMS/NHA ADVISORS/FINANCE COMMITTEE)

Recommendation:

Staff recommends that the District Board adopt Resolution No. 18-5 being a Resolution of the Board of Directors of the Palmdale Water District Authorizing the Issuance of Not to Exceed \$15 million Water Revenue Bonds, Series 2018A, Approving the Execution of Certain Documents.

Staff also recommends that the Board of the Public Financing Authority adopt Resolution No. 2018-1 being a Resolution of the Palmdale Water District Public Financing Authority Authorizing the Issuance of Not to Exceed \$15 million Water Revenue Bonds, Series 2018A, Approving the Execution of Certain Documents and Authorizing Certain Acts in Connection Therewith.

Alternative Options:

The Board can choose not to adopt these Resolutions and instruct staff to seek alternative financing methods to pay for the capital projects it would like to complete.

Impact of Taking No Action:

The impact from no action would result in the District's inability to issue bonds for financing the construction of the capital projects it intends to complete.

BOARD OF DIRECTORS
PALMDALE WATER DISTRICT

VIA: Mr. Dennis D. LaMoreaux, General Manager

May 22, 2018

Background:

The District has completed major financings for its water system over the last 20 years. The District refinanced all of the obligations in 2012 and 2013 and funded new improvements in 2013. The District also entered into a lease agreement for certain improvements in 2017. The District now has a need to fund the following capital improvements with Water Revenue Bonds, Series 2018A ("2018 Bonds"). The specific capital improvements to be funded with the 2018 Bonds are listed in the following table:

Cost Item	Cost
Soft costs previously incurred by District	\$173,000
Littlerock Grade Control Structure (Specification No. 1802)	\$8,160,257
Water main replacement in area bounded by Avenue P-8, Avenue Q, 3 rd Street East, and Division Street (Specification No. 1206)	\$1,424,112
6.0 million-gallon Clearwell at 641 East Avenue S, baffle curtain hangar and replacement project and interior coating rehabilitation	\$1,050,000
Water main replacements in Avenue P at 10 th Street East and 25 th Street East	\$365,500
Water treatment plant improvements	\$2,375,000
Total	\$13,547,869

Of these improvements, the Littlerock Dam grade control structure is the most time urgent project. Construction needs to start as soon as possible to complete the structure prior to the start of the rainy season towards the end of this calendar year.

By adopting the attached resolutions, in combination, the District and Authority are taking the following steps:

1. Approval of an Installment Purchase Agreement, wherein the District makes installment purchase payments (debt service payments) secured by a pledge of net revenues (after operating expenses) of the District. This Agreement is between the District and the Palmdale Water District Public Financing Authority.
2. Approval of an Assignment Agreement, which assigns the Installment Purchase Agreement from the Palmdale Water District Public Financing Authority to the trustee for the bond issue, The Bank of New York Mellon Trust Company, N.A. ("BNY Mellon").
3. Approval of the Purchase Contract, wherein Piper Jaffray, the bond underwriter, sets forth its commitment to purchase the 2018A Bonds from the Public Financing Authority.
4. Approval of the Indenture of Trust, wherein BNY Mellon, the trustee, is instructed how to manage cash flows and various accounts related to the bond issue.
5. Approval of the Preliminary Official Statement, wherein information regarding the security for the bonds and the credit of the District is communicated to potential investors
6. Approval of the Continuing Disclosure Certificate which requires the District to file an annual report with updated financial information and notice of certain events for investors.

BOARD OF DIRECTORS
PALMDALE WATER DISTRICT

VIA: Mr. Dennis D. LaMoreaux, General Manager

May 22, 2018

7. Authorization and direction to staff to complete a new rate study in 2019 and to return to the Board of Directors with proposed rate increases to enable the District to comply with the rate covenant in the Installment Purchase Agreement in calendar years 2020 through 2024
8. Authorizing and directing the specified District staff to do any and all things and deliver any and all documents which they may deem necessary in order to carry out the terms of the resolutions.

The District's municipal advisor, NHA Advisors, made an informational presentation to the Board on Monday, April 23rd, regarding this potential debt financing. NHA Advisors also made a presentation to the Board's Finance Committee on Thursday, April 26th, regarding the potential debt financing.

The District's debt is secured by the net revenues of the District after operating expenses. The District has ample capacity based on current net revenues to issue this debt. However, rates will need to increase in the future to service this debt and meet other anticipated increases in operating expenses. Based on very preliminary analysis presented to the Board's Finance Committee on April 26th, and updated since then, in addition to the rate increases already approved through 2019, the District will need to increase its rates by at least 7.9% cumulatively before 2022.

As noted to the full Board at the April 23rd meeting, the District's existing debt obligations all contain a "rate covenant." This legal provision mandates that the Board increases rates sufficient to create net revenues, gross revenues net of operating expenses, equal to at least 110% of current annual debt service. This requirement can be offset in part by use of a "rate stabilization fund." The rate stabilization fund can be used to meet the difference between 100% coverage of debt service by net revenues and 110% coverage. The District currently has \$488,000 in its rate stabilization fund. The District does not need these funds now to meet its rate covenants.

The District resolution directs staff to complete a new rate study in 2019 and to return to the Board with proposed rate increases to submit to District ratepayers in accordance with the notice, public hearing and protest provisions of Proposition 218, which would take effect in 2020 and enable the District to comply with the rate covenant in the Installment Purchase Agreement in calendar years 2020 through 2024.

Note that for legal reasons, the District's joint powers authority formed in connection with the 2013 Bonds, the Palmdale Water District Public Financing Authority, needs to be involved in the transaction. The Installment Purchase Agreement securing the financing is technically a purchase by the District of the improvements to funded by the proposed bond issue. Consequently, there needs to be both a purchaser (the District) and a seller (the Public Financing Authority). Otherwise, the Public Financing Authority takes no active role in the financing, since pursuant to the Assignment Agreement it assigns all of its rights (other than to indemnification and notice) under the Installment Purchase Agreement to BNY Mellon, the trustee for the bond issue. In addition, use of the Public Financing Authority as the actual issuer of the bonds enables the debt obligation to be called a "revenue bond," which has advantages with bond investors.

BOARD OF DIRECTORS
PALMDALE WATER DISTRICT

VIA: Mr. Dennis D. LaMoreaux, General Manager

May 22, 2018

Budget Impact:

The bonds will have a final maturity on October 1, 2048. The average interest rate is anticipated to be 4.00% to 4.25% range. Principal amortization will begin on October 1, 2022. Once principal amortization begins, annual debt service is anticipated to be approximately \$830,000 per year. Current combined annual debt service for the District is \$3.8 million per year. Beginning in 2022, combined debt service, including the proposed 2018A Bonds, would be \$4.6 million per year.

Prior to 2022, the interest only payments on the proposed 2018A Bonds are anticipated to be approximately \$600,000 per year.

Shown below is a table summarizing the estimated issuance expenses for the proposed bond issue:

Cost of Issuance Summary		
Payee	Service	Public Offering
Stradling	Bond/Disclosure Counsel & Expenses	\$85,000.00
NHA Advisors	Municipal Advisor	75,000.00
S&P Global Ratings	Rating	21,500.00
Fitch Ratings	Rating	21,000.00
TBD	Printing	1,000.00
BNY Mellon	Trustee	1,750.00
Law Offices of Samuel D Waldman	Trustee Counsel	2,200.00
Contingency	N/A	7,550.00
Piper Jaffray	Bond Underwriter	100,000.00
TBD	Bond Insurance	65,000.00
Total		\$380,000.00

Of these expenses, all are contingent upon a successful closing except for the two credit rating fees, for S&P Global Ratings and Fitch Ratings. These fees total \$42,500. The District takes the risk that should it decide not to go ahead with the bond issue after securing these credit ratings that it would still owe approximately \$42,500 for these services.

The bond insurance expense actually saves the District money by lowering the interest rate on the bonds. There is a net reduction in total interest cost to the District after factoring in the bond insurance premium.

Strategic Plan Initiative/Mission Statement:

This item is under Strategic Initiative No. 1 – “Water Resource Reliability” and Strategic Initiative No. 4 – “Financial Health and Stability”

This item directly relates to the District’s Mission Statement.

BOARD OF DIRECTORS
PALMDALE WATER DISTRICT

VIA: Mr. Dennis D. LaMoreaux, General Manager

May 22, 2018

Supporting Documents:

- Resolution No.18-5 of the Palmdale Water District
- Resolution No. 2018-1 of the Palmdale Financing Authority
- Installment Purchase Agreement
- Assignment Agreement
- Purchase Contract
- Indenture of Trust
- Preliminary Official Statement
- Continuing Disclosure Certificate

RESOLUTION NO. 18-5

RESOLUTION OF THE BOARD OF DIRECTORS OF THE PALMDALE WATER DISTRICT AUTHORIZING THE ISSUANCE BY THE PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY OF WATER REVENUE BONDS IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$15,000,000 AND APPROVING CERTAIN DOCUMENTS IN CONNECTION THEREWITH

WHEREAS, the Palmdale Water District (the “District”) is an irrigation district duly organized and existing under and pursuant to the Constitution and laws of the State of California (the “State”);

WHEREAS, the District proposes to finance the acquisition and construction of certain improvements, betterments, renovations to and expansions of facilities within its water system including, but not limited to, a grade control structure for the Littlerock Dam and water line replacements and upgrades (the “2018 Project”);

WHEREAS, the District desires to have the Palmdale Water District Public Financing Authority (the “Authority”) issue Water Revenue Bonds (the “Bonds”) for the purpose of financing the 2018 Project and paying costs of issuance in connection therewith;

WHEREAS, the Bonds will be issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, commencing with Section 6584 of the California Government Code (the “Act”) and an Indenture of Trust by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as Trustee;

WHEREAS, in accordance with the requirements of Government Code Section 5852.1, there has been presented to the Board of Directors of the District and disclosed at the meeting at which this resolution is being adopted the information required by Government Code Section 5852(a)(1) which is attached hereto as Exhibit A;

WHEREAS, the District is authorized by Division 11 of the Water Code of the State of California, including, but not limited to Sections 22225 through 22231, to acquire property for its water system;

WHEREAS, it will be necessary for the District to raise its rates in order to meet the rate covenant contained in the District's existing installment purchase agreements and the Installment Purchase Agreement by and between the District and the Authority to be entered into with respect to the Bonds and the Board desires to provide certain direction regarding a future increase in rates as described herein;

NOW, THEREFORE, the Board of Directors of the Palmdale Water District hereby finds, determines, declares and resolves as follows:

Section 1. Each of the above recitals is true and correct. The Board of Directors hereby further finds and determines that there are significant public benefits of the type described in Section 6586 of the Act to the District and its residents by issuing the Bonds under the Act in that the issuance of the Bonds and related transactions will result in demonstrable savings in bond preparation, bond underwriting and bond issuance costs.

Section 2. The issuance by the Authority of the Bonds in the principal amount not to exceed \$15,000,000 to finance the 2018 Project and to pay the cost of issuance of the Bonds is hereby approved; provided, however, that the Bonds shall be issued only in accordance with the parameters set forth in Section 5 below.

Section 3. The Installment Purchase Agreement by and between the District and the Authority, in substantially the form on file with the Secretary of the Board, is hereby approved, subject to final approval as to form by the District's legal counsel and the law firm of Stradling Yocca Carlson & Rauth, a Professional Corporation ("Bond Counsel"). Each of the President of the Board of Directors, the General Manager of the District (the "General Manager") and the Finance Manager of the District (the "Finance Manager"), or their designees (collectively, the "Authorized Officers"), acting alone, is hereby authorized and directed to execute and deliver such Installment Purchase Agreement with such changes, insertions and omissions as may be approved by the District's legal

counsel and Bond Counsel, with the execution thereof by an Authorized Officer being conclusive evidence of such approval.

Section 4. The Continuing Disclosure Certificate to be executed by the District in connection with the issuance of the Bonds, in substantially the form on file with the Secretary of the Board, is hereby approved, subject to final approval as to form by the District's legal counsel and Bond Counsel. Each of the Authorized Officers, acting alone, is hereby authorized and directed to execute and deliver the Continuing Disclosure Certificate with such changes, insertions and omissions as may be approved by the District's legal counsel and Bond Counsel, with the execution thereof by an Authorized Officer being conclusive evidence of such approval.

Section 5. The Purchase Contract by and among the District, the Authority and Piper Jaffray & Co. (the "Underwriter"), in substantially the form on file with the Secretary of the Board, is hereby approved. Each of the Authorized Officers, acting alone, is hereby authorized and directed to execute and deliver the Purchase Contract with such changes, insertions and omissions as may be approved by the District's legal counsel and Bond Counsel, with the execution thereof by an Authorized Officer being conclusive evidence of such approval; provided, however, that in no event shall the principal amount of the Bonds exceed \$15,000,000, nor shall the underwriter's discount exceed 0.8% of the principal amount of the Bonds.

Section 6. The form of the Preliminary Official Statement, presented to this meeting and on file with the Secretary of the Board, is hereby approved. The General Manager, the Finance Manager and their designees are hereby authorized to make such changes to the Preliminary Official Statement as are necessary to make it final as of its date and are authorized and directed to execute and deliver a certificate deeming the Preliminary Official Statement final as of its date in accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934. Each of the Authorized Officers, acting alone, is hereby authorized and directed to execute, approve and deliver the final Official Statement in the form of the Preliminary Official Statement with such changes, insertions and

omissions as the Authorized Officer executing said document may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof by an Authorized Officer.

Section 7. The Secretary of the Board, or persons as may have been designated by the General Manager, are hereby authorized and directed to attest the signature of any of the Authorized Officers designated herein to execute any documents, as may be required or appropriate in connection with the execution and delivery of the Purchase Contract, the Installment Purchase Agreement, the Continuing Disclosure Certificate and the Official Statement.

Section 8. Each of the Authorized Officers, acting alone, is authorized to execute a contract for services with Stradling Yocca Carlson & Rauth, a Professional Corporation, to act as Bond Counsel and Disclosure Counsel to the District, and with NHA Advisors to act as Municipal Advisor to the District (the “Municipal Advisor”), which contracts shall be in substantially the forms on file with the Secretary of the Board, together with such changes as may be approved by the General Manager or the Finance Manager, the District’s legal counsel, or their designee, which changes shall be conclusively evidenced by the execution and delivery of such contracts by any one of such officers. The Bank of New York Mellon Trust Company, N.A. is hereby appointed as trustee for the Bonds and the General Manager is hereby authorized to appoint any replacement trustee while the Bonds are outstanding.

Section 9. Each of the General Manager, the Finance Manager and their designees, acting alone, is hereby authorized to (i) execute a commitment for municipal bond insurance and/or a reserve surety policy from a municipal bond insurer (the “Insurer”), (ii) to finalize the form of such policy or policies with the Insurer, and (iii) if it is determined that the policy or policies will result in interest rate savings on the Bonds, to pay the insurance premium of such policy or policies from the proceeds of the issuance and sale of the Bonds. Bond Counsel is hereby directed to make all changes to the Preliminary Official Statement, the Continuing Disclosure Certificate, the Installment Purchase Agreement and the Purchase Contract as are necessary to reflect the selection of an Insurer, including the terms of any commitment and the Insurer’s reasonable comments to such documents.

Section 10. The Authorized Officers are each hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which each may deem necessary or advisable in order to consummate the issuance of the Bonds and the financing of the 2018 Project, and to otherwise carry out, give effect to and comply with the terms and intent of this Resolution, the Bonds, the Installment Purchase Agreement, the Continuing Disclosure Certificate, the Purchase Contract, the Preliminary Official Statement and the Official Statement. Such actions heretofore taken by such officers or designees are hereby ratified, confirmed and approved.

Section 11. The General Manager, the Finance Manager and other officers of the District are hereby directed to complete a new rate study in 2019 and to return to the Board of Directors with proposed rate increases to submit to District ratepayers in accordance with the notice, public hearing and protest provisions of Proposition 218, which would take effect in 2020 and enable the District to comply with the rate covenant in the Installment Purchase Agreement in calendar years 2020 through 2024.

Section 12. Unless otherwise defined herein, all terms used herein and not otherwise defined shall have the meanings given such terms in the Installment Purchase Agreement unless the context otherwise clearly requires.

Section 13. This Resolution shall take effect immediately upon its passage.

PASSED AND ADOPTED by the Board of Directors of the Palmdale Water District,
California, this 29th day of May 2018, by the following vote:

AYES:

NAYS:

ABSENT:

ABSTAIN:

President

ATTEST:

Secretary

EXHIBIT A
GOOD FAITH ESTIMATES

The good faith estimates set forth herein are provided with respect to the Bonds in accordance with California Government Code Section 5852.1. Such good faith estimates have been provided to the District by the Municipal Advisor.

Principal Amount. The Municipal Advisor has informed the District that, based on the District's financing plan and current market conditions, its good faith estimate of the aggregate principal amount of the Bonds to be sold is \$12,190,000 (the "Estimated Principal Amount"). Based on the Estimated Principal Amount, the following good faith estimates are provided:

(a) True Interest Cost of the Bonds. The Municipal Advisor has informed the District that, assuming that the Estimated Principal Amount of the Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the true interest cost of the Bonds, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the Bonds, is 3.999%.

(b) Finance Charge of the Bonds. The Municipal Advisor has informed the District that, assuming that the Estimated Principal Amount of the Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the finance charge for the Bonds, which means the sum of all fees and charges paid to third parties, is \$449,465, of which \$215,000 is for costs of issuance to be paid from Bond proceeds, \$91,791 is Underwriter's discount, \$62,674 is for bond and reserve surety premiums and an estimated \$80,000 is for fees paid to the Trustee over the life of the Bonds from funds other than Bond proceeds.

(c) Amount of Proceeds to be Received. The Municipal Advisor has informed the District that, assuming that the Estimated Principal Amount of the Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the amount of proceeds expected to be received by the Authority for sale of the Bonds, less the finance charge of the Bonds paid from Bond proceeds, which amount is estimated to be \$369,465, and any reserves or capitalized interest to be paid or funded with proceeds of the Bonds, which is estimated to be \$0.00, is \$13,547,869.

(d) Total Payment Amount. The Municipal Advisor has informed the District that, assuming that the Estimated Principal Amount of the Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the total payment amount, which means the sum total of all payments the Authority will make to pay debt service on the Bonds, plus the finance charge for the Bonds as described in (b) above not paid with the proceeds of the Bonds, calculated to the final maturity of the Bonds, is \$24,410,067 (\$0.00 of which will be paid for from capitalized interest).

The foregoing estimates constitute good faith estimates only. The actual principal amount of the Bonds issued and sold, the true interest cost thereof, the finance charges thereof, the amount of proceeds received therefrom and total payment amount with respect thereto may differ from such good faith estimates due to (a) the actual date of the sale of the Bonds being different than the date assumed for purposes of such estimates, (b) the actual principal amount of Bonds sold being different from the

Estimated Principal Amount, (c) the actual amortization of the Bonds being different than the amortization assumed for purposes of such estimates, (d) the actual market interest rates at the time of sale of the Bonds being different than those estimated for purposes of such estimates, (e) other market conditions, or (f) alterations in the District's financing plan, or a combination of such factors. The actual date of sale of the Bonds and the actual principal amount of Bonds sold will be determined by the District based on the timing of the need for proceeds of the Bonds and other factors. The actual interest rates borne by the Bonds will depend on market interest rates at the time of sale thereof. The actual amortization of the Bonds will also depend, in part, on market interest rates at the time of sale thereof. Market interest rates are affected by economic and other factors beyond the control of the District.

RESOLUTION NO. 2018-1

RESOLUTION OF THE PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$15,000,000 WATER REVENUE BONDS, SERIES 2018A, APPROVING THE EXECUTION OF CERTAIN DOCUMENTS AND AUTHORIZING CERTAIN ACTS IN CONNECTION THEREWITH

WHEREAS, the Palmdale Water District Public Financing Authority is a joint exercise of powers authority duly organized and existing under the laws of the State of California (the “Authority”) which has the authority to assist in financing the acquisition, construction, installation and equipping of capital improvements on behalf of the Palmdale Water District (the “District”);

WHEREAS, the District has requested that the Authority assist the District in financing certain capital improvements to the District’s Water System, including, but not limited to, a grade control structure for the Littlerock Dam and water line replacements and upgrades (the “2018 Project”); and

WHEREAS, the Board of Directors of the Authority has determined to assist the District with the financing of the 2018 Project through the issuance of the Palmdale Water District Public Financing Authority Water Revenue Bonds, Series 2018A (the “Bonds”) and desires to approve certain documents in connection therewith;

WHEREAS, the Bonds will be issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, commencing with Section 6584 of the California Government Code (the “Act”) and an Indenture of Trust by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as Trustee;

WHEREAS, in accordance with the requirements of Government Code Section 5852.1, there has been presented to the Board of Directors of the Authority and disclosed at the meeting at which this resolution is being adopted the information required by Government Code Section 5852(a)(1) which is attached hereto as Exhibit A;

NOW THEREFORE, the Board of Directors of the Palmdale Water District Public Financing Authority hereby finds, determines, declares and resolves as follows:

Section 1. The issuance of the Palmdale Water District Public Financing Authority Water Revenue Bonds, Series 2018A (the “2018A Bonds”) in the principal amount not to exceed \$15,000,000 in order to finance the 2018 Project, and to pay the cost of issuance for the 2018A Bonds, is hereby approved; provided, however, that the 2018A Bonds shall be issued only in accordance with the parameters set forth in Section 5 below.

Section 2. The Installment Purchase Agreement by and between the District and the Authority, in substantially the form on file with the Authority, is hereby approved. Each of the President, Vice President, Executive Director, Treasurer and Secretary of the Authority, or the President’s designee (collectively, the “Authorized Officers”), acting alone, is hereby authorized and directed to execute and deliver the Installment Purchase Agreement with such changes, insertions and omissions as may be approved by the person executing the same, said execution being conclusive evidence of such approval.

Section 3. The Indenture of Trust by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), in substantially the form on file with the Authority, is hereby approved. Each of the Authorized Officers, acting alone, is hereby authorized and directed to execute and deliver the Indenture of Trust with such changes, insertions and omissions as may be approved by the person executing the same, said execution being conclusive evidence of such approval.

Section 4. The Assignment Agreement, by and between the Authority and the Trustee, in substantially the form on file with the Authority, is hereby approved. Each of the Authorized Officers, acting alone, is hereby authorized and directed to execute and deliver the Assignment Agreement with such changes, insertions and omissions as may be approved by the person executing the same, said execution being conclusive evidence of such approval.

Section 5. The Purchase Contract by and among the Authority, the District and Piper Jaffray & Co. (the “Underwriter”), in substantially the form on file with the Authority, is hereby approved. Each of the Authorized Officers, acting alone, is hereby authorized and directed to execute and deliver the Purchase Contract with such changes, insertions and omissions as may be approved by the person executing the same, said execution being conclusive evidence of such approval; provided, however, that in no event shall the principal amount of the 2018A Bonds exceed \$15,000,000, nor shall the Underwriter’s discount exceed 0.8% of the principal amount of the 2018A Bonds.

Section 6. The preparation and distribution of the Preliminary Official Statement, in substantially the form on file with the Secretary of the Board, is hereby approved, subject to final approval as to form by the District’s legal counsel and the law firm of Stradling Yocca Carlson & Rauth, a Professional Corporation (“Bond Counsel”). Each of the Authorized Officers, acting alone, is hereby authorized to sign a certificate pursuant to Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 relating to the Preliminary Official Statement, and each of the Authorized Officers, acting alone, is hereby authorized and directed to execute, approve and deliver the final Official Statement in the form of the Preliminary Official Statement with such changes, insertions and omissions as may be approved by the person executing the same, said execution being conclusive evidence of such approval. The Underwriter is hereby authorized to distribute copies of the Preliminary Official Statement to persons who may be interested in the initial purchase of the 2018A Bonds and is directed to deliver copies of any final Official Statement to all actual initial purchasers of the 2018A Bonds.

Section 7. Each of the Executive Director, the Treasurer or their respective designees, acting alone, is hereby authorized to (i) execute a commitment for municipal bond insurance and/or a reserve surety policy from a municipal bond insurer (the “Insurer”), (ii) to finalize the form of such policy or policies with the Insurer, and (iii) if it is determined that the policy or policies will result in interest rate savings on the Bonds, to pay the insurance premium of such policy or policies from the

proceeds of the issuance and sale of the 2018A Bonds. Bond Counsel is hereby directed to make all changes to the Preliminary Official Statement, the Installment Purchase Agreement, the Indenture of Trust, the Assignment Agreement and the Purchase Contract as are necessary to reflect the selection of an Insurer, including the terms of any commitment and the Insurer's reasonable comments to such documents.

Section 8. Each of the President, Vice President, Executive Director, Treasurer or Secretary and any other proper officer of the Authority is hereby authorized and directed to execute and deliver any and all documents and instruments and to do and cause to be done any and all acts and things necessary or proper for carrying out the transactions contemplated by the Indenture of Trust, the Installment Purchase Agreement, the Assignment Agreement, the Purchase Contract, the Preliminary Official Statement and this Resolution.

Section 9. The Bank of New York Mellon Trust Company, N.A. is hereby appointed to act as trustee under the Indenture of Trust.

Section 10. Unless otherwise defined herein, all terms used herein and not otherwise defined shall have the meanings given such terms in the Indenture unless the context otherwise clearly requires.

Section 11. This Resolution shall take effect from and after its date of adoption.

PASSED AND ADOPTED by the Board of Directors of the Palmdale Water District Public Financing Authority, California, this 29th day of May, 2018, by the following vote:

AYES:

NAYS:

ABSENT:

ABSTAIN:

President

ATTEST:

Secretary

EXHIBIT A
GOOD FAITH ESTIMATES

The good faith estimates set forth herein are provided with respect to the Bonds in accordance with California Government Code Section 5852.1. Such good faith estimates have been provided to the District by the Municipal Advisor.

Principal Amount. The Municipal Advisor has informed the District that, based on the District's financing plan and current market conditions, its good faith estimate of the aggregate principal amount of the Bonds to be sold is \$12,190,000 (the "Estimated Principal Amount"). Based on the Estimated Principal Amount, the following good faith estimates are provided:

(a) True Interest Cost of the Bonds. The Municipal Advisor has informed the District that, assuming that the Estimated Principal Amount of the Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the true interest cost of the Bonds, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the Bonds, is 3.999%.

(b) Finance Charge of the Bonds. The Municipal Advisor has informed the District that, assuming that the Estimated Principal Amount of the Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the finance charge for the Bonds, which means the sum of all fees and charges paid to third parties, is \$449,465, of which \$215,000 is for costs of issuance to be paid from Bond proceeds, \$91,791 is Underwriter's discount, \$62,674 is for bond and reserve surety premiums and an estimated \$80,000 is for fees paid to the Trustee over the life of the Bonds from funds other than Bond proceeds.

(c) Amount of Proceeds to be Received. The Municipal Advisor has informed the District that, assuming that the Estimated Principal Amount of the Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the amount of proceeds expected to be received by the Authority for sale of the Bonds, less the finance charge of the Bonds paid from Bond proceeds, which amount is estimated to be \$369,465, and any reserves or capitalized interest to be paid or funded with proceeds of the Bonds, which is estimated to be \$0.00, is \$13,547,869.

(d) Total Payment Amount. The Municipal Advisor has informed the District that, assuming that the Estimated Principal Amount of the Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the total payment amount, which means the sum total of all payments the Authority will make to pay debt service on the Bonds, plus the finance charge for the Bonds as described in (b) above not paid with the proceeds of the Bonds, calculated to the final maturity of the Bonds, is \$24,410,067 (\$0.00 of which will be paid for from capitalized interest).

The foregoing estimates constitute good faith estimates only. The actual principal amount of the Bonds issued and sold, the true interest cost thereof, the finance charges thereof, the amount of proceeds received therefrom and total payment amount with respect thereto may differ from such good faith estimates due to (a) the actual date of the sale of the Bonds being different than the date assumed for purposes of such estimates, (b) the actual principal amount of Bonds sold being different from the

Estimated Principal Amount, (c) the actual amortization of the Bonds being different than the amortization assumed for purposes of such estimates, (d) the actual market interest rates at the time of sale of the Bonds being different than those estimated for purposes of such estimates, (e) other market conditions, or (f) alterations in the District's financing plan, or a combination of such factors. The actual date of sale of the Bonds and the actual principal amount of Bonds sold will be determined by the District based on the timing of the need for proceeds of the Bonds and other factors. The actual interest rates borne by the Bonds will depend on market interest rates at the time of sale thereof. The actual amortization of the Bonds will also depend, in part, on market interest rates at the time of sale thereof. Market interest rates are affected by economic and other factors beyond the control of the District.

INSTALLMENT PURCHASE AGREEMENT

by and between

PALMDALE WATER DISTRICT

and

PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY

Dated as of _____ 1, 2018

Relating to

\$ _____

**PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY
WATER REVENUE BONDS, SERIES 2018A**

TABLE OF CONTENTS

Page

ARTICLE I DEFINITIONS

Section 1.1	Definitions.....	1
-------------	------------------	---

ARTICLE II REPRESENTATIONS AND WARRANTIES

Section 2.1	Representations by the District	12
Section 2.2	Representations and Warranties by the Authority	12

ARTICLE III ACQUISITION OF THE PROJECT

Section 3.1	Changes to the Project	13
Section 3.2	Sale and Purchase of the Project	13
Section 3.3	Purchase and Sale of the Project	13
Section 3.4	Title	13
Section 3.5	Acquisition and Construction of the Project	13

ARTICLE IV SERIES 2018A INSTALLMENT PAYMENTS

Section 4.1	Purchase Price	14
Section 4.2	Series 2018A Installment Payments	14
Section 4.3	Additional Payments	14

ARTICLE V SECURITY

Section 5.1	Pledge of Water Revenues	15
Section 5.2	Allocation of Water Revenues	15
Section 5.3	Additional Contracts and Bonds	16
Section 5.4	Investments	17
Section 5.5	Rate Stabilization Fund	18
Section 5.6	Payment of Insurer Costs	18

ARTICLE VI COVENANTS OF THE DISTRICT

Section 6.1	Compliance with Installment Purchase Agreement and Ancillary Agreements	18
Section 6.2	Against Encumbrances	19
Section 6.3	Against Sale or Other Disposition of Property	19
Section 6.4	Against Competitive Facilities	19
Section 6.5	Tax Covenants	19
Section 6.6	Maintenance and Operation of the Water System	20
Section 6.7	Payment of Claims	20
Section 6.8	Compliance with Contracts	20
Section 6.9	Insurance	21
Section 6.10	Accounting Records; Financial Statements and Other Reports	22
Section 6.11	Protection of Security and Rights of the Authority	22

TABLE OF CONTENTS

(continued)

	Page
Section 6.12	Payment of Taxes and Compliance with Governmental Regulations..... 22
Section 6.13	Amount of Rates and Charges 22
Section 6.14	Collection of Rates and Charges..... 22
Section 6.15	Eminent Domain Proceeds..... 23
Section 6.16	Further Assurances..... 23
Section 6.17	Enforcement of Contracts 23
Section 6.18	Superior Additional Obligations 23
Section 6.19	Continuing Disclosure 23
Section 6.20	Payments in Connection with the State Water Supply Contract..... 24
Section 6.21	Provision of Information to the Insurer..... 24

ARTICLE VII

PREPAYMENT OF SERIES 2018A INSTALLMENT PAYMENTS

Section 7.1	Prepayment 24
Section 7.2	Method of Prepayment..... 25

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY

Section 8.1	Events of Default and Acceleration of Maturities 25
Section 8.2	Application of Funds Upon Acceleration 26
Section 8.3	Other Remedies of the Authority 26
Section 8.4	Non-Waiver..... 27
Section 8.5	Remedies Not Exclusive 27

ARTICLE IX

DISCHARGE OF OBLIGATIONS

Section 9.1	Discharge of Obligations 27
-------------	-----------------------------------

ARTICLE X

MISCELLANEOUS

Section 10.1	Liability of District Limited..... 28
Section 10.2	Benefits of Installment Purchase Agreement Limited to Parties 28
Section 10.3	Successor Is Deemed Included in all References to Predecessor 28
Section 10.4	Waiver of Personal Liability 29
Section 10.5	Article and Section Headings, Gender and References 29
Section 10.6	Partial Invalidity..... 29
Section 10.7	Assignment 29
Section 10.8	Net Contract..... 29
Section 10.9	California Law 29
Section 10.10	Notices 29
Section 10.11	Effective Date 30
Section 10.12	Execution in Counterparts..... 30
Section 10.13	Indemnification of Authority and the Trustee..... 30
Section 10.14	Insurer as Third Party Beneficiary 30
Section 10.15	No Impairment of Insurer's Rights 30

TABLE OF CONTENTS
(continued)

	Page
Section 10.16 Insurer Considerations	30
Section 10.17 Amendments Permitted.....	30
Signatures	S-1
Exhibit A Description of the Project	A-1
Exhibit B Purchase Price	B-1
Exhibit C Form of Substitution Certificate	C-1

INSTALLMENT PURCHASE AGREEMENT

This INSTALLMENT PURCHASE AGREEMENT, made and entered into and dated as of _____ 1, 2018, by and between PALMDALE WATER DISTRICT, an irrigation district duly organized and existing under and by virtue of the laws of the State of California (the “District”), and PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY, a joint powers authority duly organized and existing under and by virtue of the laws of the State of California (the “Authority”).

WITNESSETH:

WHEREAS, the District proposes to finance the acquisition and construction of certain improvements, betterments, renovations and expansions of facilities within its Water System described in Exhibit A hereto (the “Project”);

WHEREAS, the Authority has agreed to assist the District in financing the Project for the District on the terms and conditions set forth in this Installment Purchase Agreement;

WHEREAS, the District is authorized by Division 11 of the Water Code of the State of California, including, but not limited to Sections 22228 through 22231, to acquire property for its Water System;

WHEREAS, the District and the Authority have duly authorized the execution of this Installment Purchase Agreement;

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and delivery of this Installment Purchase Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Installment Purchase Agreement.

NOW, THEREFORE, IN CONSIDERATION OF THESE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

ARTICLE I

DEFINITIONS

Section 1.1 Definitions. Unless the context otherwise requires, the terms defined in this section shall for all purposes hereof and of any amendment hereof or supplement hereto and of any report or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein. All capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in the Indenture of Trust.

Act

The terms “Act” means the Marks-Roos Local Bond Pooling Act of 1985, commencing with Section 6584 of the California Government Code and all laws amendatory thereof or supplemental thereto.

Assumed Interest Rate

The term “Assumed Interest Rate” means the amount of interest calculated in accordance with the following provisions:

(A) Generally. Except as otherwise provided in subparagraph (B) below with respect to Variable Interest Rate Contracts, in subparagraph (C) below with respect to Contracts or Bonds with respect to which a Payment Agreement is in force, and in subparagraph (D) below with respect to Balloon Contracts, interest on any Contracts or Bonds shall be calculated based on the actual amount of interest that is payable under such Contracts or Bonds;

(B) Interest on Variable Interest Rate Contracts. Interest deemed to be payable on any Variable Interest Rate Contract for periods when the actual interest rate can be determined shall be the actual Variable Interest Rates and for periods when the actual interest rate cannot yet be determined shall be calculated on the assumption that the interest rate on such Variable Interest Rate Contract would be equal to (i) the average rate that accrued on such Variable Interest Rate Contract over the preceding 12 months, or (ii) if the Variable Interest Rate Contract has not been accruing interest at a variable rate for 12 months, the average interest rate that accrued on an outstanding Variable Interest Rate Contract of the District for which interest is computed on substantially the same basis during the preceding twelve month period, or (iii) if no such comparable Variable Interest Rate Contract was outstanding during the 12 months preceding the date of calculation, then (x) if the interest on such Variable Interest Rate Contract is excluded from gross income for purposes of Federal income taxation, 90% of the average rate of interest for The Bond Buyer Revenue Bond Index over the preceding 12 months, or, if that index is no longer published, a similar index selected by the District and acceptable to each credit enhancer providing credit enhancement for an outstanding Contracts or Bonds, or, if the District fails to select a replacement index, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Variable Rate Interest Contract, or if there are no such Treasury Bonds having equivalent maturities, 80% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets, and (y) if interest on such Variable Interest Rate Contract is not excluded from gross income for purposes of Federal income taxation, 110% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Variable Rate Interest Contract, or if there are no such United States Treasury Bonds having equivalent maturities, 110% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets;

(C) Interest on Obligations with respect to which a Payment Agreement is in Force. Interest deemed to be payable on any Contracts or Bonds with respect to which a Payment Agreement is in force shall be based on the net economic effect on the District expected to be produced by the terms of such Contracts or Bonds and such Payment Agreement, including but not limited to the effects that (i) such Contracts or Bonds would, but for such Payment Agreement, be treated as an obligation bearing interest at a Variable Interest Rate instead shall be treated as an obligation bearing interest at a fixed interest rate, and (ii) such Contracts or Bonds would, but for

such Payment Agreement, be treated as an obligation bearing interest at a fixed interest rate instead shall be treated as an obligation bearing interest at a Variable Interest Rate; and accordingly, the amount of interest deemed to be payable on any Contracts or Bonds with respect to which a Payment Agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in such Contracts or Bonds plus the Payment Agreement Payments minus the Payment Agreement Receipts, and for the purpose of calculating as nearly as practicable the Payment Agreement Receipts and the Payment Agreement Payments under such Contracts or Bonds, the following assumptions shall be made:

(1) District Obligated to Pay Net Variable Payments. If a Payment Agreement has been entered into by the District with respect to Contracts or Bonds resulting in the payment of a net variable interest rate with respect to such Contracts or Bonds and Payment Agreement by the District, the interest rate on such Contracts or Bonds for future periods when the actual interest rate cannot yet be determined shall be assumed (but only during the period the Payment Agreement is in effect) to be equal to the sum of (i) the fixed rate or rates stated in such Contracts or Bonds, minus (ii) the fixed rate paid by the Qualified Counterparty to the District, plus (iii) the lesser of (A) the interest rate cap, if any, provided by a Qualified Counterparty with respect to such Payment Agreement (but only during the period that such interest rate cap is in effect) and (B) the applicable Variable Interest Rate calculated in accordance with paragraph (B) above; and

(2) District Obligated to Pay Net Fixed Payments. If a Payment Agreement has been entered into by the District with respect to Contracts or Bonds resulting in the payment of a net fixed interest rate with respect to such Contracts or Bonds and Payment Agreement by the District, the interest on such Contracts or Bonds shall be included in the calculation of Payments (but only during the period the Payment Agreement is in effect) by including for each Fiscal Year or twelve (12) calendar month period an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Payment Agreement;

(D) Interest on Balloon Contracts. If any outstanding Contracts or Bonds constitute Balloon Contracts (and such Contracts or Bonds do not constitute Short-Term Obligations excluded from the calculation of the Payments pursuant to clause (E), below) or if Contracts or Bonds proposed to be incurred would constitute Balloon Contracts (and such Contracts or Bonds would not constitute Short-Term Obligations excluded from the calculation of the Payments pursuant to clause (E), below), then such Balloon Contracts shall be treated as if the principal amount of such Contracts or Bonds were amortized from the date originally incurred in substantially equal installments of principal and interest over a term of 30 years (provided, however, that the full principal amount of such Balloon Contract shall be included in making such calculation if such principal amount is due within 90 days of the date such calculation is being made); and, if interest accrues under such Balloon Contract at other than a fixed rate, the interest rate used for such computation shall be (x) if the interest on such Contracts or Bonds is excluded from gross income for purposes of Federal income taxation, 90% of the average rate of interest for The Bond Buyer Revenue Bond Index over the preceding 12 months, or if that index is no longer published, a similar index selected by the District and acceptable to each credit enhancer providing credit enhancement for outstanding Contracts or Bonds, or if the District fails to select a replacement index, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Contracts or Bonds on the date incurred, or if there are no such United States Treasury bonds having equivalent maturities, 80% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets, and (y) if the interest on such Contracts or Bonds is not excluded from gross income for purposes of Federal income taxation, the

rate equal to 110% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Balloon Contract, or, if there are no such United States Treasury Bonds having equivalent maturities, 110% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets;

(E) Exclusion of Certain Short-Term Obligations. If any outstanding Contracts or Bonds constitute Short-Term Obligations or if Contracts or Bonds proposed to be incurred would constitute Short-Term Obligations, and such Short-Term Obligations are or will be payable only out of Revenues of the Fiscal Year in which such Short-Term Obligations are incurred, then such Short-Term Obligations shall be disregarded and not included in calculating Payments;

(F) Credit for Accrued and Capitalized Interest. If amounts constituting accrued interest or capitalized interest have been deposited with a third party trustee, then the interest payable from such amounts with respect to the Contracts or Bonds shall be disregarded and not included in calculating Parity Payments.

Authority

The term “Authority” means Palmdale Water District Public Financing Authority, a joint exercise of powers agency duly organized and existing under and by virtue of the laws of the State of California.

Balloon Contract

The term “Balloon Contract” means Contracts or Bonds 50% or more of the principal of which matures or is payable on the same date and which is not required by the instrument pursuant to which such Contracts or Bonds were incurred to be amortized by payment or redemption prior to such date.

Balloon Installment Payments

The term “Balloon Installment Payments” means any Parity Payments designated as such in any Balloon Contract.

Bonds

The term “Bonds” means all revenue bonds or notes of the District authorized, executed, issued and delivered by the District, the payments of which are on a parity with the Series 2018A Installment Payments and which are secured by a pledge of and lien on the Water Revenues, including the Authority’s Water Revenue Bonds, Series 2013A. The term Bonds does not include bonds heretofore or hereafter issued required by law to be paid by the District from taxes or assessments which are not Water Revenues.

Construction Fund

The term “Construction Fund” means the fund by that name created pursuant to the Indenture of Trust.

Continuing Disclosure Certificate

The term “Continuing Disclosure Certificate” means that certain Continuing Disclosure Certificate dated _____, 2018 and executed by the District in connection with the 2018A Bonds.

Contracts

The term “Contracts” means this Installment Purchase Agreement, and any amendments and supplements hereto, the 2012 Installment Purchase Agreement, the 2013 Installment Purchase Agreement, and all contracts of the District authorized and executed by the District, the Installment Payments or payments under which are on a parity with the Series 2018A Installment Payments and which are secured by a pledge and lien on the Water Revenues. The term “Contracts” does not include the contracts with the State of California for the State Water Project, including the State Water Supply Contract.

Date of Operation

The term “Date of Operation” means, with respect to any uncompleted Project, the estimated date by which such Project will have been completed and, in the opinion of an engineer, will be ready for commercial operation by or on behalf of the District.

Debt Service

The term “Debt Service” means, for any Fiscal Year, the sum of: (1) the interest paid during such Fiscal Year on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Bonds), (2) that portion of the principal amount of all outstanding serial Bonds paid during such Fiscal Year, (3) that portion of the principal amount of all outstanding term Bonds required to be paid during such Fiscal Year, and (4) that portion of any payments, including the Installment Payments, required to be made at the times provided in the Contracts during such Fiscal Year.

For purposes of this definition, interest on any Contracts or Bonds executed or issued by the District shall be calculated based upon the Assumed Interest Rate.

District

The term “District” means the Palmdale Water District, an irrigation district organized and existing under the laws of the State of California.

Engineer’s Report

The term “Engineer’s Report” means a report signed by an Independent Engineer.

Event of Default

The term “Event of Default” means an event described in Section 8.1.

Fiscal Year

The term “Fiscal Year” means the period beginning on January 1 of each year and ending on the last day of December of the next succeeding year, or any other twelve-month period selected and designated as the official Fiscal Year of the District.

Indenture of Trust

The term “Indenture of Trust” means the Indenture of Trust, dated as of _____ 1, 2018, by and between the Authority and the Trustee, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

Independent Engineer.

The term “Independent Engineer” means any registered engineer or firm of registered engineers of national reputation generally recognized to be well qualified in engineering matters relating to water delivery systems, appointed and paid by the District, and who or each of whom –

- (1) is in fact independent and not under the domination of the District;
- (2) does not have a substantial financial interest, direct or indirect, in the operations of the District; and
- (3) is not connected with the District as a director, officer or employee of the District, but may be regularly retained to make reports to the District.

Installment Payment Date; Series 2018A Installment Payment Date

The term “Installment Payment Date” means any date on which Installment Payments are scheduled to be paid by the District under and pursuant to any Contract. The term “Series 2018A Installment Payment Date” means the tenth day preceding each Interest Payment Date pursuant to the Indenture of Trust.

Installment Payments; Series 2018A Installment Payments

The term “Installment Payments” means the payments scheduled to be paid by the District under and pursuant to the Contracts, including the Series 2018A Installment Payments. The term “Series 2018A Installment Payments” means the Installment Payments scheduled to be paid by the District under and pursuant hereto.

Installment Purchase Agreement

The term “Installment Purchase Agreement” means this Installment Purchase Agreement, dated as of _____ 1, 2018, by and between the District and the Authority, as originally executed and as it may from time to time be amended or supplemented in accordance herewith.

Insurance Policy

The term “Insurance Policy” means the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the 2018A Bonds when due.

Insurer

The term “Insurer” means _____, any successor thereto or assignee thereof.

Law

The term “Law” means the Water Code of the State of California and all laws amendatory thereof or supplemental thereto.

Maximum Annual Debt Service

The term “Maximum Annual Debt Service” means the highest Debt Service for any Fiscal Year or twelve (12) calendar month period through the final maturity date of all Contracts and Bonds; provided, however, for purposes of such calculation, the interest on all Contracts and Bonds shall be computed at the applicable Assumed Interest Rate.

Net Proceeds

The term “Net Proceeds” means, when used with respect to any insurance or condemnation award, the gross proceeds from such insurance or condemnation award, paid with respect to the Water System, remaining after payment therefrom of all expenses incurred in the collection of such gross proceeds.

Net Water Revenues

The term “Net Water Revenues” means, for any Fiscal Year, the Water Revenues for such Fiscal Year less the Operation and Maintenance Costs for such Fiscal Year.

Operation and Maintenance Costs

The term “Operation and Maintenance Costs” means the reasonable and necessary costs paid or incurred by the District for maintaining and operating the Water System of the District, determined in accordance with generally accepted accounting principles, including any water purchase costs (exclusive of any recovered amount from the State of California’s Department of Water Resources in accordance with the State Water Supply Contract) and all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Water System of the District in good repair and working order, and including all administrative costs of the District that are charged directly or apportioned to the maintenance and operation of the Water System of the District, such as salaries and wages of employees, overhead, insurance, taxes (if any) and insurance premiums, and including all other reasonable and necessary costs of the District or charges required to be paid by it to comply with the terms of the Installment Purchase Agreement and other Bonds and Contracts, such as compensation, reimbursement and indemnification of the Trustee; excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature, all capital charges, and any contract payments due under the State Water Supply Contract paid from the proceeds of any assessments levied and collected by the District to pay contract payments due under the State Water Supply Contract.

Parity Payment Agreement

The term “Parity Payment Agreement” means a Payment Agreement which is a Contract.

Parity Payments

The term “Parity Payments” means all installment payments and other debt service payments scheduled to be paid by the District under all Contracts or Bonds.

Parity Payments Date

The term “Parity Payments Date” means the date on which any Parity Payments are due on Contracts or Bonds.

Payment Agreement

The term “Payment Agreement” means a written agreement for the purpose of managing or reducing the District’s exposure to fluctuations in interest rates or for any other interest rate, investment, asset or liability managing purposes, entered into either on a current or forward basis by the District and a Qualified Counterparty as authorized under any applicable laws of the State in connection with, or incidental to, the entering into of any Contracts or Bonds, that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments or any combination thereof, or any similar device.

Payment Agreement Payments

The term “Payment Agreement Payments” means the amounts periodically required to be paid by the District to all Qualified Counterparties under all Payment Agreements.

Payment Agreement Receipts

The term “Payment Agreement Receipts” means the amounts periodically required to be paid by all Qualified Counterparties to the District under all Payment Agreements.

Policy Costs

The term “Policy Costs” means the annual amount due with respect to any policy or surety bond in lieu of depositing cash in the Reserve Fund or any reserve fund established for any Bonds or Contracts.

Project

The term “Project” means the additions, betterments, extensions and improvements to the Water System, including real property and buildings, if any, described in Exhibit A hereto.

Purchase Price

The term “Purchase Price” means the principal amount plus interest thereon owed by the District to the Authority under the terms hereof as provided in Section 4.1.

Qualified Counterparty

The term “Qualified Counterparty” means a party (other than the District or a party related to the District) who is the other party to a Payment Agreement and (1) (a) who is rated at least equal to the ratings assigned by each of the Rating Agencies to the obligations secured by Parity Payments (without regard to any gradations within a rating category), but in no event less than a rating of “A” from Fitch, “A2” from Moody’s and “A” from S&P, (b) whose senior debt obligations are rated at least equal to the ratings assigned by each of the Rating Agencies to the obligations secured by Parity Payments (without regard to any gradations within a rating category), or guaranteed by an entity so rated, (c) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by a bond insurer or other institution which has been assigned a credit rating at least equal to the ratings assigned by each of the Rating Agencies to the obligations secured by Parity Payments (without regard to any gradations within a rating category), but in no event less than a rating of “A” from Fitch, “A2” from Moody’s and “A” from S&P, or (d) whose obligations under the Payment Agreement are collateralized in such a manner as to obtain a rating at least equal to the ratings assigned by each of the Rating Agencies to the obligations secured by Parity Payments, and (2) who is otherwise qualified to act as the other party to a Payment Agreement under all applicable laws of the State.

Rate Stabilization Fund

The term “Rate Stabilization Fund” means the fund by that name established pursuant to Section 5.5 hereunder.

Reserve Fund

The term “Reserve Fund” means the account by that name established under, and held by the Trustee pursuant to Section 5.04 of the Indenture of Trust.

Reserve Surety Policy

The term “Reserve Surety Policy” means that certain municipal bond debt service reserve fund policy issued by the Insurer to satisfy the Reserve Requirement under the Indenture.

Short-Term Obligations

The term “Short-Term Obligations” means Contracts or Bonds having an original maturity of less than or equal to one year and which are not renewable at the option of the District for a term greater than one year beyond the date of original incurrence.

State Water Supply Contract

The term “State Water Supply Contract” means that certain contract between the State and the District by which the District obtains water from the State Water Project, as well as any other contract or agreement by which the District obtains water from the State Water Project and pursuant to which the District is entitled to levy assessments for the purpose of paying costs in connection therewith.

Subordinate Obligations

The term “Subordinate Obligations” means all Contracts or Bonds of the District which are secured by a pledge of and lien on the Water Revenues subordinate to the pledge of and lien on Water Revenues securing the Contracts or Bonds.

Termination Payments

The term “Termination Payments” means any payments due and payable to a Qualified Counterparty in connection with the termination of a Payment Agreement.

Trustee

The term “Trustee” means The Bank of New York Mellon Trust Company, N.A., acting in its capacity as Trustee under and pursuant to the Indenture, and its successors and assigns.

2012 Installment Purchase Agreement

The term “2012 Installment Purchase Agreement” means that certain Installment Purchase Agreement by and between the Palmdale Water District Public Facilities Corporation and the District, dated as of November 1, 2012.

2013 Installment Purchase Agreement

The term “2013 Installment Purchase Agreement” means that certain Installment Purchase Agreement by and between the Authority and the District, dated as of May 1, 2013.

2018A Bonds

The term “2018A Bonds” means the Palmdale Water District Public Financing Authority Water Revenue Bonds, Series 2018A in the aggregate principal amount of \$_____.

Variable Interest Rate

The term “Variable Interest Rate” means any variable interest rate or rates to be paid under any Contracts or Bonds, the method of computing which variable interest rate shall be as specified in the applicable Contracts or Bonds, which Contracts or Bonds shall also specify either (i) the payment period or periods or time or manner of determining such period or periods or time for which each value of such variable interest rate shall remain in effect, and (ii) the time or times based upon which any change in such variable interest rate shall become effective, and which variable interest rate may, without limitation, be based on the interest rate on certain bonds or may be based on interest rate, currency, commodity or other indices.

Variable Interest Rate Contracts

The term “Variable Interest Rate Contracts” means, for any period of time, any Contracts or Bonds that bear a Variable Interest Rate during such period, except that no Contracts or Bonds shall be treated as a Variable Interest Rate Contract if the net economic effect of interest rates on any particular Parity Payments or such Contracts or Bonds and interest rates on any other Parity Payments of the same Contracts or Bonds, as set forth in such Contracts or Bonds, or the net

economic effect of a Payment Agreement with respect to any particular Parity Payments, in either case is to produce obligations that bear interest at a fixed interest rate, and any Contracts or Bonds with respect to which a Payment Agreement is in force shall be treated as a Variable Interest Rate Contract if the net economic effect of the Payment Agreement is to produce obligations that bear interest at a Variable Interest Rate.

Water Revenue Fund

The term “Water Revenue Fund” means the Water System Revenue Fund described in Section 5.2 hereof.

Water Revenues

The term “Water Revenues” means, for any Fiscal Year, all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the District’s Water System, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the District from the sale, furnishing and supplying of the water or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, plus (2) proceeds of the District’s share of the County’s 1% property tax received by the District, if any, plus (3) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, or other moneys, including District reserves and the Reserve Fund, plus (4) the proceeds of any stand by or water availability charges collected by the District, but excluding in all cases customer deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the District, and excluding any proceeds of any taxes or assessments required by law to be used by the District to pay bonds heretofore or hereafter issued and any assessments levied and collected by the District to pay any contract payments due under the State Water Supply Contract, plus (5) money withdrawn from the Rate Stabilization Fund in such Fiscal Year, minus (6) any revenues transferred to the Rate Stabilization Fund in such Fiscal Year.

Upon the defeasance in full of the 2012 Installment Agreement and the 2013 Installment Agreement, the term “Water Revenues” shall mean, for any Fiscal Year, all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the District’s Water System, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the District from the sale, furnishing and supplying of the water or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, plus (2) proceeds of the District’s share of the County’s 1% property tax received by the District, if any, plus (3) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, or other moneys, including District reserves and the Reserve Fund, plus (4) the proceeds of any stand by or water availability charges collected by the District, but excluding in all cases customer deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the District, and excluding any proceeds of any taxes or assessments required by law to be used by the District to pay bonds heretofore or hereafter issued and any assessments levied and collected by the District to pay any contract payments due under the State Water Supply Contract, plus (5) money withdrawn from the Rate Stabilization Fund in such Fiscal Year.

Water Service

The term “Water Service” means the water distribution service made available or provided by the Water System.

Water System

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

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.1 Representations by the District. The District makes the following representations:

(a) The District is an irrigation district duly organized and existing under and pursuant to the laws of the State of California.

(b) The District has full legal right, power and authority to enter into this Installment Purchase Agreement and carry out its obligations hereunder, to carry out and consummate all other transactions contemplated by this Installment Purchase Agreement, and the District has complied with the provisions of the Law in all matters relating to such transactions.

(c) By proper action, the District has duly authorized the execution, delivery and due performance of this Installment Purchase Agreement.

(d) The District will not take or, to the extent within its power, permit any action to be taken which results in the interest paid for the installment purchase of the Project under the terms of this Installment Purchase Agreement being included in the gross income of the Authority or its assigns for purposes of federal or State of California personal income taxation.

(e) The District has determined that it is necessary and proper for District uses and purposes within the terms of the Law that the District acquire the Project in the manner provided for in this Installment Purchase Agreement.

Section 2.2 Representations and Warranties by the Authority. The Authority makes the following representations and warranties:

(a) The Authority is a joint exercise of powers authority duly organized and in good standing under the laws of the State of California, has full legal right, power and authority to enter into this Installment Purchase Agreement and to carry out and consummate all transactions contemplated by this Installment Purchase Agreement and by proper action has duly authorized the execution and delivery and due performance of this Installment Purchase Agreement.

(b) The execution and delivery of this Installment Purchase Agreement and the consummation of the transactions herein contemplated will not violate any provision of law, any order of any court or other agency of government, or any indenture, material agreement or other instrument to which the Authority is now a party or by which it or any of its properties or assets is bound, or be in conflict with, result in a breach of or constitute a default (with due notice or the passage of time or both) under any such indenture, agreement or other instrument, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the Authority.

(c) The Authority will not take or permit any action to be taken which results in interest paid for the installment purchase of the Project under the terms of this Installment Purchase Agreement being included in the gross income of the Authority or its assigns for purposes of federal or State of California personal income taxation.

ARTICLE III

ACQUISITION OF THE PROJECT

Section 3.1 Changes to the Project. The District may substitute other improvements for those listed as components of the Project in Exhibit A hereto, but only if the District first files with the Authority and the Trustee a statement of the District in the form attached as Exhibit C:

(a) identifying the improvements to be substituted and the improvements to District facilities they replace in the Project; and

(b) stating that the estimated costs of construction, acquisition and installation of the substituted improvements are not less than such costs for the improvements previously planned.

Section 3.2 Sale and Purchase of the Project. In consideration for the Authority's assistance in financing the Project, the District agrees to sell, and hereby sells, to the Authority, and the Authority agrees to purchase and hereby purchases, from the District, the Project at the purchase price specified in Section 4.1 hereof and otherwise in the manner and in accordance with the provisions of this Installment Purchase Agreement.

Section 3.3 Purchase and Sale of the Project. In consideration for the Installment Payments as set forth in Section 4.2, the Authority agrees to sell, and hereby sells, to the District, and the District agrees to purchase, and hereby purchases, from the Authority, the Project at the purchase price specified in Section 4.1 hereof and otherwise in the manner and in accordance with the provisions of this Installment Purchase Agreement.

Section 3.4 Title. All right, title and interest in the Project shall vest in the District immediately upon execution and delivery of this Installment Purchase Agreement.

Section 3.5 Acquisition and Construction of the Project. The Authority hereby agrees to cause the Project to be constructed, acquired and installed by the District as its agent. The District shall enter into contracts and provide for, as agent for the Authority, the complete construction, acquisition and installation of the Project. The District hereby agrees that it will cause the construction, acquisition and installation of the Project to be diligently performed after the deposit of funds into the Construction Fund, and that it will use its best efforts to cause the construction,

acquisition and installation of the Project to be completed. It is hereby expressly understood and agreed that the Authority shall be under no liability of any kind or character whatsoever for the payment of any cost of the Project and that all such costs and expenses shall be paid by the District.

ARTICLE IV

SERIES 2018A INSTALLMENT PAYMENTS

Section 4.1 Purchase Price.

(a) The Purchase Price to be paid by the District hereunder to the Authority is the sum of the principal amount of the District's obligations hereunder plus the interest to accrue on the unpaid balance of such principal amount from the date hereof over the term hereof, subject to prepayment as provided in Article VII.

(b) The principal amount of the installment payments to be made by the District hereunder is set forth in Exhibit B hereto.

(c) The interest to accrue on the unpaid balance of such principal amount is as specified in Section 4.2 and Exhibit B hereto, and shall be paid by the District as and constitute interest paid on the principal amount of the District's obligations hereunder.

Section 4.2 Series 2018A Installment Payments. The District shall, subject to its rights of prepayment provided in Article VII, pay the Authority the Purchase Price in installment payments of interest and principal in the amounts and on the Series 2018A Installment Payment Dates as set forth in Exhibit B hereto.

Each Series 2018A Installment Payment shall be paid to the Authority in lawful money of the United States of America. In the event the District fails to make any of the payments required to be made by it under this section, such payment shall continue as an obligation of the District until such amount shall have been fully paid and the District agrees to pay the same with interest accruing thereon at the rate or rates of interest then applicable to the remaining unpaid principal balance of the Series 2018A Installment Payments if paid in accordance with their terms.

The obligation of the District to make the Series 2018A Installment Payments is absolute and unconditional, and until such time as all of the Series 2018A Installment Payments have been paid in full (or provision for the payment thereof shall have been made pursuant to Article IX), the District will not discontinue or suspend any Series 2018A Installment Payments required to be made by it under this section when due, whether or not the Water System or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

Section 4.3 Additional Payments. In addition to the Series 2018A Installment Payments, the District shall pay all reasonable compensation to the Trustee for all services rendered under the Indenture of Trust and for all reasonable expenses, charges, costs, liabilities, legal fees and other disbursements incurred in and about the performance of its powers and duties under the Indenture of Trust.

ARTICLE V

SECURITY

Section 5.1 Pledge of Water Revenues. All Water Revenues and all amounts on deposit in the Water Revenue Fund and the Rate Stabilization Fund are hereby irrevocably pledged to the payment of the Series 2018A Installment Payments as provided herein, and the Water Revenues shall not be used for any other purpose while any of the Series 2018A Installment Payments remain unpaid; provided that out of the Water Revenues and amounts on deposit in the Water Revenue Fund there may be apportioned such sums for such purposes as are expressly permitted herein including the parity claim of any Bonds or Contracts. This pledge, together with the pledge created by all other Contracts and Bonds, shall constitute a first lien on Water Revenues and the Water Revenue Fund and all amounts on deposit therein as permitted herein and subject to the application of Water Revenues in accordance with the terms hereof.

Section 5.2 Allocation of Water Revenues. In order to carry out and effectuate the pledge and lien contained herein, the District agrees and covenants that all Water Revenues shall be received by the District in trust and shall be deposited when and as received in the “Water Revenue Fund” which fund the District has previously established and agrees and covenants to maintain and to hold separate and apart from other funds so long as any Installment Payments, Contracts or Bonds remain unpaid. Moneys in the Water Revenue Fund shall be used and applied by the District as provided in this Installment Purchase Agreement.

The District shall, from the moneys in the Water Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable. All remaining moneys in the Water Revenue Fund shall be set aside by the District at the following times in the following respective special funds in the following order of priority and all moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes hereinafter authorized in this Section:

(a) **Bond Payment Fund.** On or before each Series 2018A Installment Payment Date, the District shall, from the moneys in the Water Revenue Fund, transfer to the Trustee for deposit in the Bond Payment Fund a sum equal to the Series 2018A Installment Payment coming due on such Series 2018A Installment Payment Date. The District shall also, from the moneys in the Water Revenue Fund, transfer to the applicable trustee or payee for deposit in the applicable payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service or payments in accordance with the provisions of any Contract, Bond, resolution or indenture relating thereto.

No deposit need be made in the Bond Payment Fund as Series 2018A Installment Payments if the amount in the Bond Payment Fund is at least equal to the amount of the Series 2018A Installment Payment due and payable on the next succeeding Series 2018A Installment Payment Date.

All money in the Bond Payment Fund shall be used and withdrawn by the Trustee in accordance with the Indenture of Trust.

(b) Reserve Fund. On or before each payment date required pursuant to the provisions of any Contract or Bond, or any resolution or indenture related thereto, the District shall, from the remaining moneys in the Water Revenue Fund, thereafter, without preference of priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the Trustee for deposit to the Reserve Fund and to applicable trustee for deposit to any reserve fund or account for Bonds or Contracts the amount, if any, needed to increase the balance in such fund or account to the amount required to be deposited therein and to pay any Policy Costs then due.

(c) Subordinate Obligations. On or before the payment of principal or interest is due with respect to any Subordinate Obligations, the District shall from moneys in the Water Revenue Fund, transfer to the applicable trustee or payee for deposit in the applicable payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without discrimination or preference, payment on such Subordinate Obligations, in accordance with the provisions of such Subordinate Obligations.

(d) Surplus. On the last day of each month, moneys on deposit in the Water Revenue Fund not required to make any of the payments required above may be expended by the District at any time for any purpose permitted by law, including but not limited to the deposit of amounts in the Rate Stabilization Fund in accordance with Section 5.5.

Section 5.3 Additional Contracts and Bonds. The District may at any time execute any Contract or issue any Bonds, as the case may be, payable from Net Water Revenues on a parity with the Installment Payments in accordance herewith; provided there shall be on file with the District either:

(a) A Certificate of the District demonstrating that, during the last audited Fiscal Year or any consecutive twelve (12) calendar month period during the immediately preceding eighteen (18) calendar month period, the Net Water Revenues were at least equal to 110% of Maximum Annual Debt Service and one hundred percent (100%) of any Policy Costs, including for purposes of said calculation the Contracts proposed to be executed or the Bonds proposed to be issued and excluding any Contracts or Bonds to be defeased with the proceeds of the Contracts or Bonds to be executed; provided, that for the purpose of providing this Certificate, the District may adjust the foregoing Net Water Revenues to reflect:

(1) An allowance for Net Water Revenues that would have been derived from each new connection to the Water System that, during all or any part of such Fiscal Year or twelve (12) calendar month period, was not in existence, in an amount equal to the estimated additional Net Water Revenues that would have been derived from each such connection if it had been made prior to the beginning of such Fiscal Year or twelve (12) calendar month period, and

(2) An allowance for Net Water Revenues that would have been derived from any increase in the rates, fees and charges fixed and prescribed for Water Service which, during all or any part of such Fiscal Year or twelve (12) calendar month period, was not in effect, in an amount equal to the estimated additional Net Water Revenues that would have been derived from such increase in rates, fees and charges if it had been in effect prior to the beginning of such Fiscal Year or twelve (12) calendar month period; or

(b) A Certificate of the District or an Engineer's Report demonstrating that the estimated Net Water Revenues for each of the five (5) Fiscal Years next following the earlier of (i) the end of the period during which interest on the Contracts proposed to be executed, or the Bonds proposed to be issued (i) is to be capitalized or, if no interest is capitalized, the Fiscal Year in which the Contracts proposed to be executed, or the Bonds proposed to be issued, is executed or issued, or (ii) the date on which substantially all projects financed with the Contracts proposed to be executed, or the Bonds proposed to be issued, plus all projects financed with all existing Contracts and Bonds are expected to commence operations, will be at least equal to 110% of the Maximum Annual Debt Service and one hundred percent (100%) of any Policy Costs for such period; provided, that for the purpose of this section the foregoing estimated Net Water Revenues may be adjusted to reflect:

(1) An allowance for Net Water Revenues that are estimated to be derived from any increase in the rates, fees and charges for Water Service in effect and being charged or from any increase in the rates, fees and charges for Water Service that are expected to be charged, and

(2) An allowance for Net Water Revenues that are estimated to be derived from customers of the Water System anticipated to be served by the additions, betterments or improvements to the Water System to be financed by the Contracts proposed to be executed, or the Bonds proposed to be issued, together with any additional Contracts and Bonds expected to be executed or issued during such five (5) year period.

(c) No event of default, or event which with the passage of time would constitute an event of default, shall exist hereunder.

Notwithstanding the foregoing provisions, the District may issue bonds and contracts the payment of which are subordinate to Bonds and Contracts and which are subordinate to the payment by the District of the Installment Payments without meeting the test provided in this Section 5.3.

Notwithstanding the foregoing provisions, the District may issue refunding Bonds and Contracts for the purpose of refunding any Bond or Contract without complying with the parity requirements set forth in (a) and (b) above; provided that the Debt Service payable by the District for each Fiscal Year with respect to such refunding Contracts or Bonds is less than or equal to 105% of the Debt Service for each corresponding Fiscal Year for such Contracts or Bonds being refunded.

Notwithstanding satisfaction of the other conditions to the execution of any Contract or the issuance of Bonds set forth in this Section 5.3, no such execution or issuance may occur if an Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) exists unless such Event of Default shall be cured upon such execution or issuance.

Section 5.4 Investments. All moneys held by the District in the Water Revenue Fund shall be invested in Permitted Investments and the investment earnings thereon shall remain on deposit in such fund, except as otherwise provided herein. All investment earnings on amounts in the Rate Stabilization Fund shall be transferred to the Water Revenue Fund upon receipt thereof. With regards to funds held by the Trustee, the District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grants 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 cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

Section 5.5 Rate Stabilization Fund. The District has previously established a special fund designated as the “Rate Stabilization Fund” to be held by the District in trust and the District agrees and covenants to maintain and to hold such fund separate and apart from other funds so long as any Series 2018A Installment Payments remain unpaid. Money transferred by the District from the Water Revenue Fund to the Rate Stabilization Fund in accordance with Section 5.2(d) shall be held in the Rate Stabilization Fund and applied in accordance with the Indenture.

The District may withdraw all or any portion of the amounts on deposit in the Rate Stabilization Fund and transfer such amounts to the Water Revenue Fund for application in accordance with Section 5.1 hereof or, in the event that all or a portion of the Series 2018A Installment Payments are discharged in accordance with Article IX hereof, transfer all or any portion of such amounts for application in accordance with said Article.

Section 5.6 Payment of Insurer Costs. The District shall pay any reimbursements due to the Insurer under Section 11.18 of the Indenture to the extent that the Authority fails to pay any such costs. The payment of such amounts shall be treated as Operation and Maintenance Costs.

ARTICLE VI

COVENANTS OF THE DISTRICT

Section 6.1 Compliance with Installment Purchase Agreement and Ancillary Agreements. The District will punctually pay the Series 2018A Installment Payments in strict conformity with the terms hereof, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and performed by it, and will not terminate this Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained herein required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected herewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Authority or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Indenture of Trust required to be observed and performed by it, and it is expressly understood and agreed by and among the parties to this Installment Purchase Agreement and the Indenture of Trust that, subject to Section 10.6 hereunder, each of the agreements, conditions, covenants and terms contained in each such agreement is an essential and material term of the purchase of and payment for the Project by the District pursuant to, and in accordance with, and as authorized under the Law.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms required to be observed and performed by it pursuant to all outstanding Contracts and Bonds as such may from time to time be executed or issued, as the case may be.

Section 6.2 Against Encumbrances. The District will not make any pledge of or place any lien on Water Revenues or the moneys in the Water Revenue Fund or the Rate Stabilization Fund except as provided herein. The District may at any time, or from time to time, issue evidences of indebtedness or incur other obligations for any lawful purpose which are payable from and secured by a pledge of and lien on Water Revenues or any moneys in the Water Revenue Fund and the Rate Stabilization Fund as may from time to time be deposited therein, provided that such pledge and lien shall be subordinate in all respects to the pledge of and lien thereon provided herein.

Section 6.3 Against Sale or Other Disposition of Property. The District will not enter into any agreement or lease which impairs the operation of the Water System or any part thereof necessary to secure adequate Water Revenues for the payment of the Series 2018A Installment Payments, or which would otherwise impair the rights of the Authority hereunder or the operation of the Water System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Water System, or any material or equipment which has become worn out, may be sold if such sale will not impair the ability of the District to pay the Series 2018A Installment Payments and if the proceeds of such sale are deposited in the Water Revenue Fund.

Nothing herein shall restrict the ability of the District to sell any portion of the Water System if such portion is immediately repurchased by the District and if such arrangement cannot by its terms result in the purchaser of such portion of the Water System exercising any remedy which would deprive the District of or otherwise interfere with its right to own and operate such portion of the Water System.

Section 6.4 Against Competitive Facilities. The District will not, to the extent permitted by law, acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the District any potable water system competitive with the Water System.

Section 6.5 Tax Covenants. Notwithstanding any other provision of this Installment Purchase Agreement, absent an opinion of Special Counsel that the exclusion from gross income of interest on the 2018A Bonds will not be adversely affected for federal income tax purposes, the District and the Authority covenant to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income on the 2018A Bonds and specifically covenant, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The District and the Authority will not take or omit to take any action or make any use of the proceeds of the 2018A Bonds or of any other moneys or property which would cause the 2018A Bonds to be “private activity bonds” within the meaning of Section 141 of the Code.

(b) Arbitrage. The District and the Authority will make no use of the proceeds of the 2018A Bonds or of any other amounts or property, regardless of the source, or take or omit to

take any action which would cause the 2018A Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code.

(c) Federal Guarantee. The District and the Authority will make no use of the proceeds of the 2018A Bonds or take or omit to take any action that would cause the 2018A Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(d) Information Reporting. The District and the Authority will take or cause to be taken all necessary action to comply with the informational reporting requirements of Section 149(e) of the Code necessary to preserve the exclusion of interest on the 2018A Bonds pursuant to Section 103(a) of the Code.

(e) Hedge Bonds. The District and the Authority will make no use of the proceeds of the 2018A Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the 2018A Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the District and the Authority take all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the 2018A Bonds for federal income tax purposes.

(f) Miscellaneous. The District and the Authority will take no action, or omit to take any action, inconsistent with the expectations stated in any Tax Certificate executed for the 2018A Bonds and will comply with the covenants and requirements stated therein and incorporated by reference herein.

This Section and the covenants set forth herein shall not be applicable to, and nothing contained herein shall be deemed to prevent the District from issuing Bonds or executing and delivering Contracts, the interest with respect to which has been determined by Special Counsel to be subject to federal income taxation.

Section 6.6 Maintenance and Operation of the Water System. The District will maintain and preserve the Water System in good repair and working order at all times and will operate the Water System in an efficient and economical manner and will pay all Operation and Maintenance Costs as they become due and payable.

Section 6.7 Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Water Revenues or the funds or accounts created hereunder or under the Indenture of Trust or on any funds in the hands of the District pledged to pay the Series 2018A Installment Payments or to the Owners prior or superior to the lien of the Series 2018A Installment Payments or which might impair the security of the Series 2018A Installment Payments.

Section 6.8 Compliance with Contracts. The District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Water System and all other contracts affecting or involving the Water System, to the extent that the District is a party thereto.

Section 6.9 Insurance.

(a) The District will procure and maintain or cause to be procured and maintained insurance on the Water System with responsible insurers in such amounts and against such risks (including accident to or destruction of the Water System) as are usually covered in connection with facilities similar to the Water System so long as such insurance is available from reputable insurance companies.

In the event of any damage to or destruction of the Water System caused by the perils covered by such insurance, the Net Proceeds thereof shall be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Water System. The District shall begin such reconstruction, repair or replacement promptly after such damage or destruction shall occur, and shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Water System shall be free and clear of all claims and liens.

If such Net Proceeds exceed the costs of such reconstruction, repair or replacement portion of the Water System, and/or the cost of the construction of additions, betterments, extensions or improvements to the Water System, then the excess Net Proceeds may, at the option of the District, be applied in part to the prepayment of Series 2018A Installment Payments as provided in Section 7.1 and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal balance of Series 2018A Installment Payments then bears to the aggregate unpaid principal amount of such Bonds and Contracts. If such Net Proceeds are sufficient to enable the District to retire the entire obligation evidenced hereby prior to the final due date of the Series 2018A Installment Payments as well as the entire obligations evidenced by Bonds and Contracts then remaining unpaid prior to their final respective due dates, the District may elect not to reconstruct, repair or replace the damaged or destroyed portion of the Water System, and/or not to construct other additions, betterments, extensions or improvements to the Water System; and thereupon such Net Proceeds shall be applied to the prepayment of Series 2018A Installment Payments as provided in Section 7.1 and to the retirement of such Bonds and Contracts.

(b) The District will procure and maintain such other insurance which it shall deem advisable or necessary to protect its interests and the interests of the Authority, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with municipal retail water systems similar to the Water System.

(c) Any insurance required to be maintained by paragraph (a) above and, if the District determines to procure and maintain insurance pursuant to paragraph (b) above, such insurance, may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with municipal retail water systems similar to the Water System and is, in the opinion of an accredited actuary, actuarially sound.

All policies of insurance required to be maintained herein shall provide that the Trustee and the Authority shall be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Section 6.10 Accounting Records; Financial Statements and Other Reports.

(a) The District will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the District, which records shall be available for inspection by the Authority and the Trustee at reasonable hours and under reasonable conditions. The Trustee shall have no duties to inspect such records.

(b) The District will prepare and file with the Authority and the Trustee annually within two hundred seventy (270) days after the close of each Fiscal Year (commencing with the Fiscal Year ending December 31, 2018) financial statements of the District for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with the report of a certified public accountant thereon. The Trustee shall not be responsible for reviewing such financial statements.

(c) As long as there are any outstanding financial obligations of the District (in excess of \$100,000), the District will notify the Authority and the Trustee within 10 days following the date of any event that has the potential to have a material impact on the financial condition of the District.

Section 6.11 Protection of Security and Rights of the Authority. The District will preserve and protect the security hereof and the rights of the Authority to the Series 2018A Installment Payments hereunder and will warrant and defend such rights against all claims and demands of all persons.

Section 6.12 Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Water System, or any part thereof or upon the Water Revenues when the same shall become due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Water System, or any part thereof, but the District shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Section 6.13 Amount of Rates and Charges. The District, to the fullest extent permitted by law, shall fix, prescribe and collect Water Revenues for Water Service which will be at least sufficient to yield during each Fiscal Year Net Water Revenues equal to one hundred ten percent (110%) of Debt Service and one hundred percent (100%) of Policy Costs. The District may make adjustments from time to time in such Water Revenues and may make such classification thereof as it deems necessary, but shall not reduce the Water Revenues then in effect unless the Net Water Revenues from such reduced Water Revenues will at all times be sufficient to meet the requirements of this section.

Section 6.14 Collection of Rates and Charges. The District will have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates and charges applicable to the Water Service and providing for the billing thereof and for a due date and a delinquency date for each bill.

Section 6.15 Eminent Domain Proceeds. If all or any part of the Water System shall be taken by eminent domain proceedings, the Net Proceeds thereof shall be applied as follows:

(a) If (1) the District files with the Authority and the Trustee a certificate showing (i) the estimated loss of annual Net Water Revenues, if any, suffered or to be suffered by the District by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the Water System proposed to be acquired and constructed by the District from such Net Proceeds, and (iii) an estimate of the additional annual Net Water Revenues to be derived from such additions, betterments, extensions or improvements, and (2) the District, on the basis of such certificate filed with the Authority and the Trustee, determines that the estimated additional annual Net Water Revenues will sufficiently offset the estimated loss of annual Net Water Revenues resulting from such eminent domain proceedings so that the ability of the District to meet its obligations hereunder will not be substantially impaired (which determination shall be final and conclusive), then the District shall promptly proceed with the acquisition and construction of such additions, betterments, extensions or improvements substantially in accordance with such certificate and such Net Proceeds shall be applied for the payment of the costs of such acquisition and construction, and any balance of such Net Proceeds not required by the District for such purpose shall be held by the District and shall be treated as Water Revenues.

(b) If the foregoing conditions are not met, then such Net Proceeds shall be applied by the District in part to the prepayment of Series 2018A Installment Payments as provided in Section 7.1 and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal components of the Series 2018A Installment Payments then bears to the aggregate unpaid principal amount of such Bonds and Contracts.

Section 6.16 Further Assurances. The District will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Authority of the rights and benefits provided to it herein.

Section 6.17 Enforcement of Contracts. So long as any of the 2018A Bonds are outstanding, the District will not voluntarily consent to or permit any rescission of, nor will it consent to any amendment to or otherwise take any action under or in connection with any contracts previously or hereafter entered into which contracts provide for water to be supplied to the District which will reduce the supply of water thereunder (except as provided therein) if such rescission or amendment would in any manner impair or adversely affect the rights of the owners from time to time of the 2018A Bonds.

Section 6.18 Superior Additional Obligations. The District shall not execute any Contracts or issue any Bonds, as the case may be, that are payable from or secured by a pledge of and lien on Water Revenues and any money in the Water Revenue Fund superior to the pledge securing the Series 2018A Installment Payments.

Section 6.19 Continuing Disclosure. The District will comply with and carry out all of its obligations under the Continuing Disclosure Certificate to be executed and delivered by the District in connection with the issuance of the 2018A Bonds. Notwithstanding any other provision of this Installment Purchase Agreement, failure of the District to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default.

Section 6.20 Payments in Connection with the State Water Supply Contract. The District shall apply to the payments due for any Fiscal Year under that certain Water Supply Contract, by and between the District and the State of California Department of Water Resources, as amended, all amounts the District collects through the ad valorem assessment levied to pay such amounts.

Section 6.21 Provision of Information to the Insurer. So long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy, the Insurer shall be provided with the following information by the District:

(a) Annual audited financial statements within 270 days after the end of the District's Fiscal Year (together with a certification of the District that it is not aware of any default or Event of Default under this Installment Purchase Agreement), and the District's annual budget within 30 days after the approval thereof together with such other information, data or reports as the Insurer shall reasonably request from time to time;

(b) Notice of the commencement of any proceeding by or against the District commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law;

(c) A full original transcript of all proceedings relating to the execution of any amendment, supplement, or waiver to this Installment Purchase Agreement or any supplement thereto or amendment thereof; and

(d) All information furnished pursuant to the Continuing Disclosure Certificate shall also be provided to the Insurer, simultaneously with the filing of the Continuing Disclosure Certificate with any electronic repository.

ARTICLE VII

PREPAYMENT OF SERIES 2018A INSTALLMENT PAYMENTS

Section 7.1 Prepayment.

(a) The District may or shall, as the case may be, prepay from the Net Proceeds as provided in Sections 6.9 and 6.15 herein on any date all or any part of the unpaid Series 2018A Installment Payments at a prepayment price equal to the sum of the principal components prepaid plus accrued interest thereon to the date of prepayment.

(b) The District may prepay the Series 2018A Installment Payments, as a whole or in part, in the order of payment date as its directs, on the date and at the prepayment price (expressed as a percentage of the principal amount of the 2018A Bonds to be prepaid) plus accrued interest thereon to the date of prepayment, as set forth in Section 4.01(a) of the Indenture of Trust.

Notwithstanding any such prepayment, the District shall not be relieved of its obligations hereunder, including its obligations under Article IV, until the Purchase Price shall have been fully paid (or provision for payment thereof shall have been provided to the written satisfaction of the Authority and the Trustee) and the requirements of Article IX hereof shall have been satisfied.

Section 7.2 Method of Prepayment. Before making any prepayment pursuant to Section 7.1, the District shall, within five (5) days following the event permitting the exercise of such right to prepay or creating such obligation to prepay or a determination to prepay, give written notice to the Authority and the Trustee describing such event and specifying the date on which the prepayment will be paid, which date shall be not less than sixty (60) nor more than seventy-five (75) days from the date such notice is given unless a shorter period is agreed to by the Trustee in its sole discretion.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY

Section 8.1 Events of Default and Acceleration of Maturities. If one or more of the following Events of Default shall happen, that is to say --

(1) if default shall be made by the District in the due and punctual payment of any Series 2018A Installment Payment or any Contract or Bond when and as the same shall become due and payable;

(2) if default shall be made by the District in the performance of any of the agreements or covenants required herein or in connection with any Contract or Bond to be performed by it, and such default shall have continued for a period of sixty (60) days after the District shall have been given notice in writing of such default by the Authority;

(3) if the District shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property; or

(4) if payment of the principal of any Contract or Bond is accelerated in accordance with its terms;

then and in each and every such case upon the occurrence of such Event of Default specified in clauses (3) and (4) above, without any notice to the District or any other act by any Person, the entire principal amount of the unpaid Series 2018A Installment Payments and the accrued interest thereon shall be immediately due and payable and for any other Event of Default the Authority may, by notice in writing to the District declare the entire principal amount of the unpaid Series 2018A Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained herein to the contrary notwithstanding. This section, however, is subject to the condition that if at any time after the entire principal amount of the unpaid Series 2018A Installment Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered the District shall deposit with the Authority a sum sufficient to pay the unpaid principal amount of the Series 2018A Installment Payments or the unpaid payment of any other Contract or Bond referred to in clause (1) above due

prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the Series 2018A Installment Payments or such Contract or Bond if paid in accordance with their terms, and the reasonable expenses of the Authority, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid Series 2018A Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Authority, if appropriate, or provision deemed by the Authority, if appropriate, to be adequate shall have been made therefor, then and in every such case the Authority, if appropriate by written notice to the District, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Section 8.2 Application of Funds Upon Acceleration. Upon the date of the declaration of acceleration as provided in Section 8.1, all Water Revenues thereafter received by the District shall be applied in the following order --

First, to the payment of the fees, costs and expenses of the Trustee, if any, in carrying out the provisions of this article, including reasonable compensation to its accountants and counsel and any outstanding fees and expenses of the Trustee, and then to the payment of the fees, costs and expenses of the Authority, if any, in carrying out the provisions of this article, including reasonable compensation to its accountants and counsel;

Second, to the payment of the Operation and Maintenance Costs;

Third, to the payment of the entire principal amount of the unpaid Series 2018A Installment Payments and the unpaid principal amount of all Bonds and Contracts and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable to the Series 2018A Installment Payments and such Bonds and Contracts if paid in accordance with their respective terms; and

Fourth, to the payment of Subordinate Obligations in accordance with the terms thereof.

Section 8.3 Other Remedies of the Authority. The Authority shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any director, officer or employee thereof, and to compel the District or any such director, officer or employee to perform and carry out its or his duties under the Law and the agreements and covenants required to be performed by it or him contained herein;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Authority; or

(c) by suit in equity upon the happening of an Event of Default to require the District and its directors, officers and employees to account as the trustee of an express trust.

Notwithstanding anything contained herein, the Authority shall have no security interest in or mortgage on the Project, the Water System or other assets of the District and no default hereunder shall result in the loss of the Project, the Water System, or other assets of the District.

Section 8.4 Non-Waiver. Nothing in this article or in any other provision hereof shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the Series 2018A Installment Payments to the Authority at the respective due dates or upon prepayment from the Net Water Revenues, the Water Revenue Fund and the other funds herein pledged for such payment, or shall affect or impair the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied herein.

A waiver of any default or breach of duty or contract by the Authority shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Authority to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Authority by the Act or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Authority.

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

Section 8.5 Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Authority is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law. To the extent that this Installment Purchase Agreement confers upon or gives or grants the Trustee any right, remedy or claim under or by reason of this Installment Purchase Agreement, the Trustee is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.

ARTICLE IX

DISCHARGE OF OBLIGATIONS

Section 9.1 Discharge of Obligations. When

(a) all or any portion of the Series 2018A Installment Payments shall have become due and payable in accordance herewith or a written notice of the District to prepay all or any portion of the Series 2018A Installment Payments shall have been filed with the Trustee; and

(b) there shall have been deposited with the Trustee at or prior to the Series 2018A Installment Payment Dates or date (or dates) specified for prepayment, in trust for the benefit of the Authority or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of the Series 2018A Installment Payments, sufficient moneys and non-callable Defeasance Securities, the principal of and interest on which when due will provide money sufficient to pay all principal, prepayment premium, if any, and interest of such Series 2018A Installment Payments to their respective Series 2018A Installment Payment Dates or prepayment date or dates as the case may be; and

(c) provision shall have been made for paying all fees and expenses of the Trustee, then and in that event, the right, title and interest of the Authority herein and the obligations of the District hereunder shall, with respect to all or such portion of the Series 2018A Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the District to have such Defeasance Securities applied to the payment of such Series 2018A Installment Payments).

In such event, upon request of the District the Trustee shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and shall execute and deliver to the District all such instruments as may be necessary or desirable to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a total discharge and satisfaction, the Trustee shall pay over to the District, after payment of all amounts due the Trustee pursuant to the Indenture of Trust as an overpayment of Series 2018A Installment Payments, all such Defeasance Securities held by it pursuant hereto other than such Defeasance Securities, as are required for the payment or prepayment of the Series 2018A Installment Payments, which Defeasance Securities shall continue to be held by the Trustee in trust for the payment of the Series 2018A Installment Payments and shall be applied by the Trustee to the payment of the Series 2018A Installment Payments of the District.

ARTICLE X

MISCELLANEOUS

Section 10.1 Liability of District Limited. Notwithstanding anything contained herein, the District shall not be required to advance any moneys derived from any source of income other than the Net Water Revenues and the other funds provided herein and in the Indenture for the payment of the Series 2018A Installment Payments or for the performance of any agreements or covenants required to be performed by it contained herein. The District may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the District for such purpose.

The obligation of the District to make the Series 2018A Installment Payments is a special obligation of the District payable solely from such Net Water Revenues and other funds described herein, and does not constitute a debt of the District or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Section 10.2 Benefits of Installment Purchase Agreement Limited to Parties. Nothing contained herein, expressed or implied, is intended to give to any person other than the District or the Authority and its assigns any right, remedy or claim under or pursuant hereto, and any agreement or covenant required herein to be performed by or on behalf of the District or the Authority shall be for the sole and exclusive benefit of the other party.

Section 10.3 Successor Is Deemed Included in all References to Predecessor. Whenever either the District or the Authority is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the District or the Authority, and all agreements and covenants required hereby to be performed by or on behalf of the District or the Authority shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Section 10.4 Waiver of Personal Liability. No director, officer or employee of the District shall be individually or personally liable for the payment of the Series 2018A Installment Payments, but nothing contained herein shall relieve any director, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or hereby.

Section 10.5 Article and Section Headings, Gender and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to “Articles,” “Sections” and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and the words “hereby,” “herein,” “hereof,” “hereto,” “herewith” and other words of similar import refer to the Installment Purchase Agreement as a whole and not to any particular article, section, subdivision or clause hereof.

Section 10.6 Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the District or the Authority shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof. The District and the Authority hereby declare that they would have executed the Installment Purchase Agreement, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 10.7 Assignment. This Installment Purchase Agreement and all right, title and interest of the Authority hereunder, including its right to receive the Series 2018A Installment Payments, shall be assigned by the Authority to the Trustee, pursuant to the Indenture of Trust with the express consent of the District.

Section 10.8 Net Contract. The Installment Purchase Agreement shall be deemed and construed to be a net contract, and the District shall pay absolutely net during the term hereof of the Installment Payments and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off whatsoever.

Section 10.9 California Law. THE INSTALLMENT PURCHASE AGREEMENT SHALL BE CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

Section 10.10 Notices. All written notices to be given hereunder shall be given by mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other party in writing from time to time, namely:

If to the District:	Palmdale Water District
	2029 E. Avenue Q
	Palmdale, California 93550
	Attention: General Manager

If to the Authority: Palmdale Water District Public Financing Authority
2029 E. Avenue Q
Palmdale, California 93550
Attention: Executive Director

If to the Trustee: The Bank of New York Mellon Trust Company, N.A.
400 South Hope Street, Suite 500
Los Angeles, California 90071
Attention: Corporate Trust Department

Section 10.11 Effective Date. The Installment Purchase Agreement shall become effective upon its execution and delivery, and shall terminate when the Purchase Price shall have been fully paid (or provision for the payment thereof shall have been made to the written satisfaction of the Authority and the Trustee).

Section 10.12 Execution in Counterparts. The Installment Purchase Agreement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

Section 10.13 Indemnification of Authority and the Trustee. The District hereby agrees to indemnify and hold harmless the Authority and the Trustee and their directors, officers and employees if and to the extent permitted by law, from and against all claims, advances, damages and losses, including legal fees and expenses, arising out of or in connection with the acceptance or the performance of their duties hereunder and under the Indenture of Trust; provided that no indemnification will be made for willful misconduct, negligence or breach of an obligation hereunder or under the Indenture of Trust by the Authority or the Trustee.

Section 10.14 Insurer as Third Party Beneficiary. The Insurer is intended as a third party beneficiary to this Installment Purchase Agreement.

Section 10.15 No Impairment of Insurer's Rights. No contract shall be entered into or any action taken by which the rights of the Insurer or security for or sources of payment of the 2018A Bonds which is provided from the District may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Insurer.

Section 10.16 Insurer Considerations. The rights granted to the Insurer under this Installment Purchase Agreement or any supplement thereto or amendment thereof to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Owners and such action does not evidence any position of the Insurer, affirmative or negative, as to whether the consent of the Owners or any other person is required in addition to the consent of the Insurer.

Section 10.17 Amendments Permitted.

(a) This Installment Purchase Agreement and the rights and obligations of the Authority and the District and of the Owners of the 2018A Bonds and of the Trustee may be modified or amended at any time by an amendment hereto which shall become binding when the

written consent of the Insurer, so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy, shall have been filed with the Trustee. No such modification or amendment shall: (1) extend the stated maturities of the 2018A Bonds, or reduce the rate of interest represented thereby, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any premium payable on the prepayment thereof, without the consent of the owner of each 2018A Bond so affected; or (2) reduce the aforesaid percentage of Owners of 2018A Bonds whose consent is required for the execution of any amendment or modification of this Installment Purchase Agreement; or (3) modify any of the rights or obligations of the Trustee or the Authority without its written consent thereto.

(b) This Installment Purchase Agreement and the rights and obligations of the Authority and the District and of the Owners of the 2018A Bonds may also be modified or amended but only with the prior written consent of the Insurer and to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Authority or the District contained in this Installment Purchase Agreement other covenants and agreements thereafter to be observed or to surrender any right or power herein reserved to or conferred upon the Authority or the District, and which shall not adversely affect the interests of the Owners of the 2018A Bonds;

(2) to cure, correct or supplement any ambiguous or defective provision contained in this Installment Purchase Agreement or in regard to questions arising under this Installment Purchase Agreement, as the Authority or the District may deem necessary or desirable and which shall not adversely affect the interests of the Owners of the 2018A Bonds;

(3) to make such other amendments or modifications as may be in the best interests of the Owners of the 2018A Bonds; and

(4) to make any amendments or supplements necessary or appropriate to preserve or protect the exclusion of interest on the 2018A Bonds from gross income for federal income tax purposes under the Code or the exemption of such interest from State personal income taxes.

No amendment may modify any of the rights or obligations of the Trustee without the written consent of the Trustee thereto.

IN WITNESS WHEREOF, the parties hereto have executed and attested this Installment Purchase Agreement by their officers thereunto duly authorized as of the day and year first written above.

PALMDALE WATER DISTRICT

By: _____
General Manager

(SEAL)

Attest:

Secretary

PALMDALE WATER DISTRICT PUBLIC
FINANCING AUTHORITY

By: _____
Executive Director

Attest:

Secretary

EXHIBIT A

DESCRIPTION OF THE PROJECT

The Project comprises the following described improvements to the District's Water System:

Certain improvements to the District's existing Water System, including _____.

EXHIBIT B
PURCHASE PRICE

1. The principal amount of the installment payments to be made by the District hereunder is \$_____.

2. The installment payments of principal and interest are payable in the amounts and on the Series 2018A Installment Payment Dates as follows:

<i>Series 2018A Installment Payment Date</i>	<i>Amount Attributable to Principal</i>	<i>Amount Attributable to Interest</i>	<i>Total</i>
<i>Tenth Day Prior To:</i>			

<i>Series 2018A Installment Payment Date</i>	<i>Amount Attributable to Principal</i>	<i>Amount Attributable to Interest</i>	<i>Total</i>
<i>Tenth Day Prior To:</i>			

TOTAL

EXHIBIT C

FORM OF SUBSTITUTION CERTIFICATE

Palmdale Water District Public Financing Authority
2029 E. Avenue Q
Palmdale, California 93550
Attention: Executive Director

The Bank of New York Mellon Trust Company, N.A.
400 South Hope Street, Suite 400
Los Angeles, California 90071
Attention: Corporate Trust Department

The undersigned General Manager of the Palmdale Water District (the “District”) hereby states pursuant to Section 3.01 of the Installment Purchase Agreement, dated as of _____ 1, 2018, by and between Palmdale Water District Public Financing Authority and the District (the “Installment Purchase Agreement”) that each component of the Project (as defined in the Installment Purchase Agreement) described in the Exhibit 1 attached hereto, with an estimated cost set forth in Exhibit 1, will be replaced by the corresponding improvement described in the Exhibit 1 with an estimated cost set forth in Exhibit 1.

Dated: _____, _____

General Manager

EXHIBIT 1

ASSIGNMENT AGREEMENT

by and between

PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY

and

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
as Trustee

Dated as of _____ 1, 2018

Relating To

\$ _____
PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY
WATER REVENUE BONDS, SERIES 2018A

ASSIGNMENT AGREEMENT

This Assignment Agreement is made and entered into as of _____ 1, 2018 by and between the PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY, a joint exercise of powers agency duly organized and existing under the laws of the State of California (the "Authority") and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States of America, as trustee (the "Trustee");

NOW, THEREFORE, IN CONSIDERATION OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

Section 1. Assignment.

The Authority, for good and valuable consideration in hand received, does hereby sell, assign and transfer to the Trustee without recourse, for the benefit of the owners of the bonds (the "Bonds"), to be issued by the Authority pursuant to the Indenture of Trust dated as of _____ 1, 2018, by and between the Authority and the Trustee (the "Indenture"), all of its rights, title and interest in the Installment Purchase Agreement dated as of _____ 1, 2018, by and between the Palmdale Water District (the "District") and the Authority (the "Installment Purchase Agreement") including the right to receive all installment payments from the District under the Installment Purchase Agreement (but not including the right to be indemnified pursuant to, or receive notices under, the Installment Purchase Agreement), together with any and all of the other rights of the Authority under the Installment Purchase Agreement as may be necessary to enforce payment of such installment payments when due or otherwise to protect the interests of the owners of the Bonds. The assignment herein is absolute and presently effective.

Section 2. Acceptance.

The Trustee hereby accepts the foregoing assignment for the purpose of securing the right assigned to it to receive all such installment payments from the District under the Installment Purchase Agreement and the other rights assigned to it, subject to the terms and provisions of the Indenture, and all such installment payments shall be applied and the rights so assigned shall be exercised by the Trustee as provided in the Indenture.

Section 3. Conditions.

This Assignment Agreement shall confer no rights or impose no obligations upon the Trustee beyond those expressly provided in the Indenture.

IN WITNESS WHEREOF, the parties hereto have executed this Assignment Agreement by their officers thereunto duly authorized as of the day and year first written above.

PALMDALE WATER DISTRICT PUBLIC
FINANCING AUTHORITY

By: _____
Executive Director

ATTEST:

Secretary

THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A., as Trustee

By: _____
Authorized Officer

\$ _____
**PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY
WATER REVENUE BONDS, SERIES 2018A**

BOND PURCHASE AGREEMENT

Palmdale Water District Public Financing Authority
c/o Palmdale Water District
2029 East Avenue Q
Palmdale, CA 93550

Palmdale Water District
2029 East Avenue Q
Palmdale, CA 93550

Ladies and Gentlemen:

The undersigned (the “Underwriter”) hereby offers to enter into this Bond Purchase Agreement (the “Purchase Agreement”) with you, the Palmdale Water District Public Financing Authority (the “Authority”) and the Palmdale Water District (the “District”), for the purchase by the Underwriter and the delivery by the Authority of the Bonds specified below. The proceeds of the Bonds will be used (i) to finance certain improvements to the District’s water system, including Littlerock Dam; (ii) to purchase a municipal bond insurance policy (the “Insurance Policy”) to guarantee payment of the principal of and interest on the Bonds; (iii) to purchase a municipal bond debt service reserve insurance policy (the “Reserve Surety Policy”) for deposit in the Reserve Fund; and (iv) to pay the costs of issuing the Bonds. This offer is subject to your acceptance prior to 11:59 p.m., Los Angeles time, on the date hereof and if not so accepted will be subject to withdrawal by the Underwriter upon written notice delivered to the District and the Authority at any time prior to the acceptance thereof by the District and the Authority. Upon such acceptance, this Purchase Agreement shall be in full force and effect in accordance with its terms and shall be binding upon you and the Underwriter. All terms not defined herein shall have the meanings set forth in the Indenture and Installment Purchase Agreement (each as defined below).

The District and the Authority acknowledge and agree that: (i) the purchase and sale of the Bonds pursuant to this Purchase Agreement is an arm’s length commercial transaction among the District, the Authority and the Underwriter in which the Underwriter is acting solely as a principal and not as an agent of the District or the Authority and the Underwriter is not acting as a municipal advisor, financial advisor or fiduciary to the District or the Authority; (ii) the Underwriter has not assumed any advisory or fiduciary responsibility to the District or the Authority with respect to the transaction contemplated by the Purchase Agreement and the discussions, undertakings or procedures leading thereto (irrespective of whether the Underwriter, or any affiliate of the Underwriter have provided other services or is currently providing other services to the District or the Authority on other matters); (iii) the only obligations the Underwriter has to the District and the Authority with respect to the transaction contemplated by this Purchase Agreement are expressly set forth in this Purchase Agreement; and (iv) the District and the Authority have consulted their own financial and/or municipal legal, accounting, tax and other advisors, as applicable, to the extent the District and the Authority have deemed appropriate. The Authority acknowledges that it has previously

provided the Underwriter with an acknowledgement of receipt of the required Underwriter disclosure under Rule G-17 of the Municipal Securities Rulemaking Board (the “MSRB”).

1. Upon the terms and conditions and upon the basis of the representations herein set forth, the Underwriter hereby agrees to purchase from the Authority for offering to the public, and the Authority hereby agrees to sell and deliver to the Underwriter, all (but not less than all) of the \$_____ aggregate principal amount of the Palmdale Water District Public Financing Authority Water Revenue Bonds, Series 2018A (the “Bonds”) to be dated the Closing Date, at a price of \$_____, being the principal amount of the Bonds, plus net original issue premium of \$_____, less an Underwriter’s discount of \$_____.

The Bonds shall mature in the amounts and on the dates, and bear interest at the rates, set forth in Exhibit A hereto. The Bonds shall be as described in and shall be secured under and pursuant to an Indenture, dated as of June 1, 2018 between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), substantially in the form previously submitted to the Underwriter with only such changes therein as shall be mutually agreed upon by the Authority, the Trustee and the Underwriter.

The obligation of the Authority to pay the principal of and interest on the Bonds is a special obligation of the Authority, payable solely from Revenues (as defined in the Indenture), and certain other amounts held under the Indenture. Revenues consist primarily of capital payments made by the District pursuant to the Installment Purchase Agreement, dated as of June 1, 2018 (the “Installment Purchase Agreement”), by and between the District and the Authority. The principal of and interest on the Bonds are not required to be paid from any other funds of the Authority, including any proceeds of any taxes, and does not constitute a debt or pledge of the faith and credit of the Authority or the State of California or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under the Insurance Policy to be issued concurrently with the delivery of the Bonds by _____ (the “Insurer”). The Insurer will also issue the Reserve Surety Policy concurrently with the delivery of the Bonds.

The District hereby ratifies the use by the Underwriter of the Preliminary Official Statement, dated _____, 2018 relating to the Bonds (together with the cover page and all appendices thereto, and any supplements thereof, the “Preliminary Official Statement”), and authorizes the Underwriter to use and distribute the Preliminary Official Statement, the Official Statement (as defined below), the Indenture, the Installment Purchase Agreement, the Continuing Disclosure Certificate as required by Securities and Exchange Commission Rule 15c2-12, as amended (“Rule 15c2-12”), and substantially in the form attached as an appendix to the Official Statement (the “Continuing Disclosure Certificate”) and this Purchase Agreement, and all information contained therein, and all other documents, certificates and statements furnished by the District to the Underwriter in connection with the offer and sale of the Bonds by the Underwriter. The District has heretofore “deemed final” the Preliminary Official Statement within the meaning of the Rule.

The District will undertake pursuant to the Installment Purchase Agreement and the Continuing Disclosure Certificate to provide certain annual financial and operating information and notices of the occurrence of certain events. A description of this undertaking is set forth in the

Preliminary Official Statement and will also be set forth in the final Official Statement. This undertaking will be entered into in order to assist the Underwriter in complying with the Rule.

2. The Underwriter agrees to offer all the Bonds to the public initially at the prices (or yields) set forth on the cover page of the Official Statement of the District pertaining to the Bonds, dated _____, 2018 (the “Official Statement”, together with all appendices thereto, and with such changes therein and supplements thereto as are consented to in writing by the Underwriter, and with the Preliminary Official Statement, are herein called the “Official Statement”). Subsequent to the initial public offering of the Bonds, the Underwriter reserves the right to change the public offering prices (or yields) as it deems necessary in connection with the marketing of the Bonds subject to Section 5 hereof. The Bonds may be offered and sold to certain dealers at prices lower than such initial public offering prices. “Public Offering” shall include an offering to a representative number of institutional investors or registered investment companies, regardless of the number of such investors to which the Bonds are sold. The Underwriter agrees that prior to the time the final Official Statement relating to the Bonds is available, the Underwriter will send to any potential purchaser of the Bonds, upon the request of such potential purchaser, a copy of the most recent Preliminary Official Statement. Such Preliminary Official Statement shall be sent by first class mail or electronic distribution (or other equally prompt means) not later than the first business day following the date upon which each such request is received.

3. The District shall also deliver a sufficient number of copies of the Official Statement to enable the Underwriter to distribute a single copy of each Official Statement to any potential customer of the Underwriter requesting an Official Statement during the time period beginning when the Official Statement becomes available and ending on the End Date (defined below). The District shall deliver these copies to the Underwriter no later than the earlier of (i) seven (7) business days after the execution of this Purchase Agreement or (ii) one (1) business day prior to the Closing Date in order to permit the Underwriter to comply with Rule 15c2-12 of the Securities and Exchange Commission, and the applicable rules of the MSRB, with respect to distribution of the Official Statement. The District and Authority shall prepare the Official Statement, including any amendments thereto, in word-searchable PDF format as described in the MSRB’s Rule G-32 and shall provide the electronic copy of the word-searchable PDF format of the Official Statement to the Underwriter no later than one (1) business day prior to the Closing Date to enable the Underwriter to comply with MSRB Rule G-32. The Underwriter shall inform the District in writing of the End Date, and covenants to file the Official Statement with the MSRB on a timely basis.

The Official Statement, as of its date, as of the Closing Date and as of the date of any update, amendment or supplement thereto as required hereby subsequent to the Closing, up to and including the date which is twenty-five (25) days following the end (the “End Date”) of the Underwriting Period (as hereinafter defined), will be correct and complete in all material respects and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

If, after the date of this Purchase Agreement and until the earlier of (i) ninety (90) days after the end of the “underwriting period” (as defined in Rule 15c2-12) (the “Underwriting Period”), or (ii) twenty-five (25) days following the end of the Underwriting Period if the Official Statement is available to any person from the MSRB as contemplated by Rule 15c2-12(b)(4), any event shall occur or circumstance shall exist of which the Authority or the District have knowledge that would cause the Official Statement to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which

they were made, not misleading, the Authority or the District, as the case may be, shall notify the Underwriters (and for the purpose of this Section provide the Underwriters with such information as it may from time to time reasonably request), and, if in the opinion of the District, the Authority or the Underwriters such event or circumstance requires the preparation and publication of a supplement or amendment to the Official Statement, the Authority and the District will, at their expense, supplement or amend the Official Statement in a form and manner jointly approved by the District, the Authority and the Underwriters and furnish to the Underwriters a reasonable number of copies of such supplement or amendment provided that the Underwriters promptly agree that they will notify the Authority and the District of the end of the Underwriting Period.

4. At 8:30 a.m., Pacific Time, on _____, 2018, or at such other time or date as shall be agreed upon by the Underwriter and the District (such time and date being herein referred to as the “Closing Date”), the District will deliver to the Underwriter, at a location or locations to be designated by the Underwriter, the Bonds in book-entry form (all Bonds having had the CUSIP numbers assigned to them thereon), duly executed by an authorized officer of the Trustee as provided in the Indenture, and the other documents herein mentioned; and the Underwriter will accept such delivery and pay the purchase price of the Bonds as set forth in Section 1 of this Purchase Agreement in immediately available funds (such delivery and payment being herein referred to as the “Closing”).

Upon initial issuance, the ownership of such Bonds shall be registered in the registration books kept by the Trustee in the name of Cede & Co., as the nominee of The Depository Trust Company.

5. (a) The Underwriter agrees to assist the Authority in establishing the issue price of the Bonds and shall execute and deliver to the Authority at Closing an “issue price” or similar certificate, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Exhibit B, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Underwriter, the Authority and Bond Counsel (as defined herein), to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the Bonds.

(b) Except as otherwise set forth in Exhibit A attached hereto, the Authority will treat the first (meaning single) price at which 10% of each maturity of the Bonds (the “10% test”) is sold to the public as the issue price of that maturity (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% test). At or promptly after the execution of this Purchase Agreement, the Underwriter shall report to the Authority the price or prices at which it has sold to the public each maturity of Bonds. If at that time the 10% test has not been satisfied as to any maturity of the Bonds, the Underwriter agrees to promptly report to the Authority the prices at which it sells the unsold Bonds of that maturity to the public. That reporting obligation shall continue, whether or not the Closing Date (as defined herein) has occurred, until the 10% test has been satisfied as to the Bonds of that maturity or until all Bonds of that maturity have been sold to the public.

(c) The Underwriter confirms that it has offered the Bonds to the public on or before the date of this Purchase Agreement at the offering price or prices (the “initial offering price”), or at the corresponding yield or yields, set forth in Exhibit A attached hereto, except as otherwise set forth therein. Exhibit A also sets forth, as of the date of this Purchase Agreement, the maturities, if any, of the Bonds for which the Underwriter represents that (i) the 10% test has been

satisfied (assuming orders are confirmed by the close of the business day immediately following the date of this Purchase Agreement) and (ii) the 10% test has not been satisfied and for which the Authority and the Underwriter agrees that the restrictions set forth in the next sentence shall apply, which will allow the Authority to treat the initial offering price to the public of each such maturity as of the sale date as the issue price of that maturity (the “hold-the-offering-price rule”). So long as the hold-the-offering-price rule remains applicable to any maturity of the Bonds, the Underwriter will neither offer nor sell unsold Bonds of that maturity to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (1) the close of the fifth (5th) business day after the sale date; or
- (2) the date on which the Underwriter has sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The Underwriter shall promptly advise the Authority when it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.

(d) The Underwriter confirms that any selling group agreement and any retail distribution agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each dealer who is a member of the selling group and each broker-dealer that is a party to such retail distribution agreement, as applicable, to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the Underwriter that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the Underwriter. The Authority acknowledges that, in making the representation set forth in this subsection, the Underwriter will rely on (i) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, if applicable, as set forth in a selling group agreement and the related pricing wires, and (ii) in the event that a retail distribution agreement was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the hold-the-offering-price rule, if applicable, as set forth in the retail distribution agreement and the related pricing wires.

(e) The Underwriter acknowledges that sales of any Bonds to any person that is a related party to the Underwriter shall not constitute sales to the public for purposes of this section. Further, for purposes of this section:

- (1) “public” means any person other than an underwriter or a related party;
- (2) “underwriter” means (A) any person that agrees pursuant to a written contract with the Authority (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling

group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public);

(3) a purchaser of any of the Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other); and

(4) “sale date” means the date of execution of this Purchase Agreement by all parties.

6. The Underwriter represents to and agrees with the District and the Authority that, as of the date hereof and as of the Closing Date:

(i) The Underwriter is duly authorized to execute this Purchase Agreement and to take any action under this Purchase Agreement required to be taken by it;

(ii) The Underwriter is in compliance with MSRB Rule G-37 with respect to the District and the Authority, and is not prohibited thereby from acting as the underwriter with respect to securities of the District and the Authority; and

(iii) The Underwriter has, and has had, no financial advisory relationship, as that term is defined in California Government Code Section 53590 (c) or MSRB Rule G-32, with the District with respect to the Bonds, and no investment firm controlling, controlled by or under common control with the Underwriter has or has had any such financial advisory relationship.

7. The Authority represents, warrants and covenants to the Underwriter that:

(a) The Authority is a joint powers authority duly organized and validly existing pursuant to the laws of the State of California and has all necessary power and authority to enter into and perform its duties under the Indenture, the Installment Purchase Agreement, the Assignment Agreement, dated as of June 1, 2018 (the “Assignment Agreement”), between the Authority and the Trustee and this Purchase Agreement (collectively, the “Authority Documents”) and, when executed and delivered by the respective parties thereto, the Authority Documents will constitute the legal, valid and binding obligations of the Authority in accordance with their respective terms.

(b) Neither the execution and delivery of the Authority Documents, or the approval and execution of the Official Statement or this Purchase Agreement, and compliance with the provisions on the Authority’s part contained therein, nor the consummation of any other of the transactions herein and therein contemplated, nor the fulfillment of the terms hereof and thereof, conflicts with or constitutes a breach of or default under nor contravenes any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other

instrument to which the Authority is a party or is otherwise subject, nor does any such execution, delivery, adoption or compliance result in the security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the Authority under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided by the Authority Documents.

(c) Except as may be required under blue sky or other securities laws of any state, there is no consent, approval, authorization or other order of, or filing with, or certification by, any regulatory authority having jurisdiction over the Authority required for the execution and delivery of the Bonds or the consummation by the Authority of the other transactions contemplated by the Official Statement and this Purchase Agreement.

(d) To the best of the knowledge of the Authority, and except as disclosed in the Official Statement, there is, and on the Closing Date there will be, no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the Authority to restrain or enjoin the delivery of any of the Bonds, or the payments to be made pursuant to the Indenture, or in any way contesting or affecting the validity of the Authority Documents or the authority of the Authority to approve this Purchase Agreement, or enter into the Authority Documents or contesting the powers of the Authority to perform its obligations under any of the foregoing or in any way contesting the powers of the Authority in connection with any action contemplated by this Purchase Agreement, or in any way questioning or challenging the tax status of the Bonds.

(e) As of the date thereof and at all times subsequent thereto up to and including the End Date, the information relating to the Authority contained in the Official Statement will be complete and will not contain any untrue or misleading statement of a material fact or omit to state any material fact (unless an event occurs of the nature described in Section 7(j) below) necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. As of its date and as of the date hereof, the information relating to the Authority and the Bonds contained in the Official Statement is true and correct in all material respects and such information does not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(f) The Authority agrees to cooperate with the Underwriter in endeavoring to qualify the Bonds for offering and sale under the securities or blue sky laws of such jurisdictions of the United States as the Underwriter may request; provided, however, that the Authority will not be required to execute a special or general consent to service of process in any jurisdiction in which it is not now so subject or to qualify to do business as a foreign agency in any jurisdiction where it is not so qualified.

(g) By official action of the Authority prior to or concurrently with the execution hereof, the Authority has duly approved the distribution of the Official Statement, and has duly authorized and approved the execution and delivery of, and the performance by the Authority of the obligations on its part contained in the Authority Documents and the consummation by it of all other transactions contemplated by the Official Statement and this Purchase Agreement.

(h) The Authority is not in breach of or default under any applicable law or administrative regulation of the State of California or the United States or any applicable judgment or

decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or an event of default under any such instrument.

(i) The Authority is not in default, nor has been in default at any time, as to the payment of principal or interest with respect to an obligation issued by the Authority or successor of the Authority or with respect to an obligation guaranteed by the Authority as guarantor or successor of a guarantor.

(j) If between the date of this Purchase Agreement and the End Date an event occurs, of which the Authority has knowledge, which might or would cause the information relating to the Authority or the Authority's functions, duties and responsibilities contained in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading, the Authority will notify the Underwriter, and if, in the opinion of the Underwriter, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the Authority will cooperate with the Underwriter in the preparation of an amendment or supplement to the Official Statement in a form and in a manner approved by the Underwriter, provided all expenses thereby incurred will be paid for by the Authority.

(k) If the information relating to the Authority, its functions, duties and responsibilities contained in the Official Statement is amended or supplemented pursuant to the immediately preceding subsection, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subsection) at all times subsequent thereto up to and including the date of the Closing, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading.

(l) No consent, approval, authorization or other action by an governmental or regulatory authority that has not been obtained is or will be required of the Authority for the delivery and sale of the Bonds or the consummation of the other transactions contemplated by this Purchase Agreement and the Official Statement, except as may be required under the state securities or blue sky laws in connection with the sale of the Bonds by the Underwriter.

(m) The Authority will deliver all opinions, Bonds, letters and other instruments and documents reasonably required by the Underwriter and this Purchase Agreement.

(n) Any certificate of the Authority delivered to the Underwriter shall be deemed a representation and warranty by the Authority to the Underwriter as to the statements made therein.

(o) Other than as described in the Official Statement, as of the time of acceptance hereof and as of the Closing, the Authority does not and will not have outstanding any indebtedness which is secured by a lien on the Revenues superior to or on a parity with the lien of the Bonds thereon.

(p) Between the date of this Purchase Agreement and the Closing Date, the Authority will not, without the prior written consent of the Underwriter, offer or issue any bonds, notes or other obligations for borrowed money, or incur any material liabilities, direct or contingent.

(q) The Authority is not presently and as a result of the execution of the Authority Documents and the sale of the Bonds will not be in violation of any debt limitation, appropriation limitation or any other provision of the California Constitution or statutes or any additional debt or similar provision of any bond, note, contract or other evidence of indebtedness to which the Authority is a party or to which the Authority is bound.

(r) The Authority will not knowingly take or omit to take any action, which action or omission will in any way cause the proceeds from the sale of the Bonds to be applied in a manner other than as provided in the Authority Documents.

8. The District represents, warrants and covenants to the Underwriter that:

(a) The District is a water district duly organized and existing under the laws of the State of California, and has all necessary power and authority to enter into and perform its duties under the Installment Purchase Agreement, the Continuing Disclosure Certificate, and this Purchase Agreement (collectively, the "District Documents") and, when executed and delivered by the respective parties thereto, the District Documents will constitute the legal, valid and binding obligations of the District in accordance with their respective terms.

(b) Neither the execution and delivery of the District Documents, or the approval and execution of the Official Statement, and compliance with the provisions on the District's part contained therein, nor the consummation of any other of the transactions herein and therein contemplated, nor the fulfillment of the terms hereof and thereof, conflicts with or constitutes a breach of or default under nor contravenes any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the District is a party or is otherwise subject, nor does any such execution, delivery, adoption or compliance result in the security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the District under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided by the District Documents.

(c) Except as may be required under blue sky or other securities laws of any state, there is no consent, approval, authorization or other order of, or filing with, or certification by, any regulatory authority having jurisdiction over the District required for the execution and delivery of the Bonds or the consummation by the District of the other transactions contemplated by the Official Statement and this Purchase Agreement.

(d) To the best of the knowledge of the District, and except as disclosed in the Official Statement, there is, and on the Closing there will be, no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the District to restrain or enjoin the delivery of any of the Bonds, or the payments to be made pursuant to the Indenture, or in any way contesting or affecting the validity of the District Documents or the authority of the District to approve this Purchase Agreement, or enter into the District Documents, or in any way questioning or challenging the tax status of the Bonds.

(e) As of its date and as of the date hereof, the information relating to the District, the Bonds and the Water System contained in the Preliminary Official Statement is true and correct in all material respects and such information does not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. As of the date thereof and at all times subsequent thereto up to and including the End Date, the information relating to the District, the Bonds and the Water System contained in the Official Statement will be complete and will not contain any untrue or misleading statement of a material fact or omit to state any material fact (unless an event occurs of the nature described in Section 8(j) below) necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(f) The District agrees to cooperate with the Underwriter in endeavoring to qualify the Bonds for offering and sale under the securities or blue sky laws of such jurisdictions of the United States as the Underwriter may request; provided, however, that the District will not be required to execute a special or general consent to service of process in any jurisdiction in which it is not now so subject or to qualify to do business as a foreign agency in any jurisdiction where it is not so qualified.

(g) By official action of the District prior to or concurrently with the execution hereof, the District has duly approved the distribution of the Official Statement, and has duly authorized and approved the execution and delivery of, and the performance by the District of the obligations on its part contained in the District Documents and the consummation by it of all other transactions contemplated by the Official Statement and this Purchase Agreement.

(h) The District is not in breach of or default under any applicable law or administrative regulation of the State of California or the United States or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the District is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or an event of default under any such instrument.

(i) The District is not in default, nor has been in default at any time, as to the payment of principal or interest with respect to an obligation issued by the District or successor of the District or with respect to an obligation guaranteed by the District as guarantor or successor of a guarantor.

(j) If between the date of this Purchase Agreement and the End Date an event occurs, of which the District has knowledge, which might or would cause the information relating to the District, the Water System or the District's functions, duties and responsibilities contained in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading, the District will notify the Underwriter, and if, in the opinion of the Underwriter, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the District will cooperate with the Underwriter in the preparation of an amendment or supplement to the Official Statement in a form and in a manner approved by the Underwriter, provided all expenses thereby incurred will be paid for by the District.

(k) If the information relating to the Water System, the District, its functions, duties and responsibilities contained in the Official Statement is amended or supplemented pursuant to the immediately preceding subsection, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subsection) at all times subsequent thereto up to and including the date of the Closing, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading.

(l) The District covenants that it will comply with all tax covenants relating to it in the District Documents and the Tax Certificate of the District.

(m) The written information supplied by the District to the Underwriter with respect to the financial information relating to the Water System is true, correct and complete in all material respects for the purposes for which it was supplied.

(n) No consent, approval, authorization or other action by an governmental or regulatory agency that has not been obtained is or will be required of the District for the delivery and sale of the Bonds or the consummation of the other transactions contemplated by this Purchase Agreement and the Official Statement, except for such licenses, certificates, approvals, variances or permits which may be necessary for the construction or operation of the Water System which the District has applied for (or will apply for in the ordinary course of business) and expects to receive, and except as may be required under the state securities or blue sky laws in connection with the sale of the Bonds by the Underwriter.

(o) Substantially all the proceeds from the sale of the Bonds (after deducting the expenses of issuance and sale of the Bonds) will be used to finance and refinance the acquisition and construction of improvements to the Water System, and the District will not take or omit to take any action which action or omission will in any way cause the proceeds from the sale of the Bonds to be applied in a manner contrary to that provided in the Indenture, as amended from time to time.

(p) The District will deliver all opinions, certificates, letters and other instruments and documents reasonably required by the Underwriter and this Purchase Agreement.

(q) Any certificate of the District delivered to the Underwriter shall be deemed a representation and warranty by the District to the Underwriter as to the statements made therein.

(r) Other than as described in the Official Statement, as of the time of acceptance hereof and as of the Closing, the District does not and will not have outstanding any indebtedness which is secured by a lien on the Net Water Revenues superior to or on a parity with the lien of the Bonds thereon.

(s) Between the date of this Purchase Agreement and the Closing Date, the District will not, without the prior written consent of the Underwriter, and except as disclosed in the Official Statement, offer or issue any bonds, notes or other obligations for borrowed money, or incur any material liabilities, direct or contingent payable from the Net Water Revenues.

(t) The District is not presently and as a result of the execution of the District Documents and the sale of the Bonds will not be in violation of any debt limitation, appropriation limitation or any other provision of the California Constitution or statutes or any additional debt or similar provision of any bond, note, contract or other evidence of indebtedness to which the District is a party or to which the District is bound.

(u) The District has not, in the last five years, failed to comply in any material respect in its obligations under any continuing disclosure undertaking entered into pursuant to Rule 15c2-12 except as disclosed in the Official Statement. The District will undertake, pursuant to the Continuing Disclosure Certificate to provide annual reports and notices of certain events in accordance with the requirements of Rule 15c2-12.

9. The Underwriter has entered into this Purchase Agreement in reliance upon the representations, warranties and agreements of the Authority and the District contained herein, and the opinions of Bond Counsel, Counsel to the Trustee, Counsel to the District and Counsel to the Authority required hereby. The Underwriter's obligations under this Purchase Agreement are and shall be subject to the following further conditions:

(a) At the time of Closing, this Purchase Agreement, the Indenture, the Installment Purchase Agreement, the Assignment Agreement and the Continuing Disclosure Certificate (collectively the "Legal Documents"), all as described in the Official Statement, shall be in full force and effect as valid and binding agreements between or among the various parties thereto and the Official Statement shall not have been amended, modified or supplemented except as may have been agreed to in writing by the Underwriter, and there shall be in full force and effect such resolutions as, in the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation (herein called "Bond Counsel"), shall be necessary in connection with the transactions contemplated hereby.

(b) At or prior to the Closing, the Underwriter shall receive the following documents, in each case satisfactory in form and substance to them:

(1) The unqualified approving opinion of Bond Counsel, dated the Closing Date, addressed to the Authority, the District and the Underwriter (or a reliance letter to the Underwriter), in substantially the form attached as APPENDIX C to the Official Statement;

(2) A supplemental opinion or opinions of Bond Counsel dated the Closing Date, addressed to the Underwriter, in form and substance to the effect that:

(a) The statements and information contained in the Official Statement under the captions "INTRODUCTION," "THE 2018A BONDS," "SECURITY FOR THE 2018A BONDS," "TAX MATTERS" and APPENDIX B and APPENDIX C, to the extent they purport to summarize information concerning the Bonds and certain provisions of the Legal Documents and the opinion of such counsel, present a fair and accurate summary of such information and such provisions;

(b) The Bonds are exempt from registration under the Securities Act of 1933, as amended, and the Indenture is exempt from qualification as an Indenture pursuant to the Indenture Act of 1939, as amended; and

(c) The Purchase Agreement has been duly authorized, executed and delivered by the Authority and the District, and, assuming due authorization, execution and delivery by the other parties thereto, constitutes legal, valid and binding agreement of the Authority and the District enforceable against each in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and equitable remedies if equitable remedies are sought, and except no opinion need be expressed as to the enforceability of the indemnification, waiver, choice of law or contributions provisions contained in the Purchase Agreement.

(3) The opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Disclosure Counsel, dated the Closing Date and addressed to the Authority, the District and the Underwriter, to the effect that, based upon their participation in conferences in the course of preparation of the Official Statement, and in reliance on such conferences and on the certificates, opinions and other documents mentioned in such opinion, no facts came to the attention of the attorneys in such firm rendering legal services in connection with such representation which caused them to believe that the Official Statement as of its date (except for any CUSIP numbers, financial, statistical or economic or engineering or demographic data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, any information about feasibility, valuation, appraisals, technology, real estate or environmental matters, the appendices thereto or any information about the Insurer, the Insurance Policy, the Reserve Surety Policy, The Depository Trust Company or the Book-Entry System included or referred to therein, which such firm expressly excludes from the scope of this section and as to which such firm need express no opinion or view) contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(4) An opinion of Aleshire & Wynder LLP, General Counsel to the District dated the Closing Date, in form and substance satisfactory to the Underwriter and Bond Counsel, addressed to the Authority and the Underwriter, to the effect that:

(i) the District is a water district created in accordance with the laws of the State of California;

(ii) the preparation and distribution of the Official Statement and the District Documents have been duly approved by the District;

(iii) the resolution of the District approving and authorizing the execution and delivery of the Official Statement and the District Documents has been duly adopted at a meeting of the governing body of the District which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout;

(iv) except as disclosed in the Official Statement, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or, to the best knowledge of such

counsel, threatened against or affecting the District or the Authority, which would adversely impact the District's or the Authority's ability to complete the transactions described in and contemplated by the Official Statement, to restrain or enjoin the payments under, or in any way contesting or affecting the validity of the District Documents, or the transactions described and defined in the Official Statement wherein an unfavorable decision, ruling or finding would adversely affect the validity and enforceability of the District Documents;

(v) the execution and delivery of the District Documents and the approval of the Official Statement, and compliance with the provisions thereof and hereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the District a breach of or default under any agreement or other instrument to which the District is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the District is subject;

(vi) the District Documents and the Official Statement have been duly authorized, executed and delivered by the District, and, assuming due authorization, execution and delivery by the other parties thereto, the District Documents constitute legal, valid and binding agreements of the District enforceable in accordance with their respective terms, except as the enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles if sought and by the limitations on legal remedies imposed on actions against public agencies in the State of California;

(vii) no authorization, approval, consent, or other order of the State of California or any other governmental authority or agency within the State of California is required for the valid authorization, execution and delivery of the District Documents and the approval of the Official Statement; and

(viii) the Water System charges and fees were duly approved and adopted by the District, and are valid and enforceable at the current levels levied by the District.

(5) An opinion of Aleshire & Wynder LLP, General Counsel to the Authority dated the Closing Date, in form and substance satisfactory to the Underwriter and Bond Counsel, addressed to the District and the Underwriter, to the effect that:

(i) the Authority is a joint powers authority duly organized and validly existing under the laws of the State of California;

(ii) the preparation and distribution of the Official Statement and the Authority Documents have been duly approved by the Authority;

(iii) the resolution of the Authority approving and authorizing the execution and delivery of the Official Statement and the Authority

Documents has been duly adopted at a meeting of the governing body of the Authority which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout;

(iv) except as disclosed in the Official Statement, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or, to the best knowledge of such counsel, threatened against or affecting the Authority, which would adversely impact the Authority's ability to complete the transactions described in and contemplated by the Official Statement, to restrain or enjoin the payments under, or in any way contesting or affecting the validity of the Authority Documents, or the transactions described and defined in the Official Statement wherein an unfavorable decision, ruling or finding would adversely affect the validity and enforceability of the Authority Documents;

(v) the execution and delivery of the Authority Documents and the approval of the Official Statement, and compliance with the provisions thereof and hereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the Authority a breach of or default under any agreement or other instrument to which the Authority is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the Authority is subject;

(vi) the Authority Documents and the Official Statement have been duly authorized, executed and delivered by the Authority, and, assuming due authorization, execution and delivery by the other parties thereto, the Authority Documents constitute legal, valid and binding agreements of the Authority enforceable in accordance with their respective terms, except as the enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles if sought and by the limitations on legal remedies imposed on actions against public agencies in the State of California; and

(vii) no authorization, approval, consent, or other order of the State of California or any other governmental authority or agency within the State of California is required for the valid authorization, execution and delivery of the Authority Documents and the approval of the Official Statement.

(6) The opinion of counsel to The Bank of New York Mellon Trust Company, N.A. (the "Bank") as Trustee, dated the Closing Date in form and substance satisfactory to the Underwriter and Bond Counsel, and addressed to the Authority, the District and the Underwriter, to the effect that:

(i) The Bank is a national banking association duly organized and validly existing under the laws of the United States.

(ii) The Bank has duly authorized the execution and delivery of the Indenture and the Continuing Disclosure Certificate (respectively, the “Bank Documents”).

(iii) The Bank Documents have been duly entered into and delivered by the Bank and assuming due, valid and binding authorization, execution and delivery by the other parties thereto, constitutes the legal, valid and binding obligations of the Bank enforceable against the Bank in accordance with their terms, except as the enforceability thereof may be limited by applicable bankruptcy, insolvency or other similar laws affecting the enforcement of creditors’ rights generally, or by general principles of equity.

(iv) Acceptance by the Bank of the duties and obligations under the Bank Documents and compliance with provisions thereof will not conflict with or constitute a breach of or default under any law or administrative regulation to which the Bank is subject.

(v) All approvals, consents and orders of any governmental authority or agency having jurisdiction in the matter which would constitute a condition precedent to the performance by the Bank of its duties and obligations under the Bank Documents have been obtained and are in full force and effect.

(7) An opinion, dated the Closing Date and addressed to the Underwriter, of Nossaman LLP, counsel to the Underwriter (“Underwriter’s Counsel”), in such form as may be acceptable to the Underwriter.

(8) A certificate, dated the Closing Date, signed by a duly authorized official of the Authority satisfactory in form and substance to the Underwriter and Bond Counsel, (a) confirming as of such date the representations and warranties of the Authority contained in this Purchase Agreement; (b) certifying that the Authority has complied with all agreements, covenants and conditions to be complied with by the Authority at or prior to the Closing under the Authority Documents; and (c) certifying that to the best of such official’s knowledge, no event affecting the Authority has occurred since the date of the Official Statement which either makes untrue or incorrect in any material respect as of the Closing the statements or information contained in the Official Statement or is not reflected in the Official Statement but should be reflected therein in order to make the statements and information therein not misleading in any material respect.

(9) A certificate or certificates, dated the Closing Date, signed by a duly authorized official of the District satisfactory in form and substance to the Underwriter and Bond Counsel, (a) confirming as of such date the representations and warranties of the District contained in this Purchase Agreement; (b) certifying that the District has complied with all agreements, covenants and conditions to be complied with by the District at or prior to the Closing under the District Documents; (c) certifying that to the best of such official’s knowledge, no event affecting the District has occurred since the date of the Official Statement which either makes

untrue or incorrect in any material respect as of the Closing the statements or information contained in the Official Statement or is not reflected in the Official Statement but should be reflected therein in order to make the statements and information therein not misleading in any material respect; (d) certifying that no consent is required to be obtained for the inclusion of the District's audited financial statements, including the accompanying accountant's letter, for Fiscal Year 2017 in the Official Statement; and (e) certifying that the payment by the District of the Installment Payments is on a parity with the obligation of the District to pay the 2012 Installment Payments and the 2013 Installment Payments (each as defined in the Official Statement).

(10) A certificate, dated the date of the Preliminary Official Statement, signed by a duly authorized official of the District deeming the Preliminary Official Statement "final" for purposes of Rule 15c2-12.

(11) A certificate, dated the date of the Preliminary Official Statement, signed by a duly authorized official of the Authority deeming the Preliminary Official Statement "final" for purposes of Rule 15c2-12.

(12) Two executed or certified copies of the Legal Documents.

(13) One counterpart original or copy certified by a duly authorized officer of the District of a complete transcript of all proceedings of the District relating to the approval of the District Documents and the authorization, issuance, sale and delivery of the Bonds.

(14) One counterpart original or copy certified by a duly authorized officer of the Authority of a complete transcript of all proceedings of the Authority relating to the approval of the Authority Documents and the authorization, issuance, sale and delivery of the Bonds.

(15) Two executed copies of the Official Statement.

(16) Two certified copies of the general resolution of the Trustee authorizing the execution and delivery of certain documents by certain officers of the Trustee, which resolution authorizes the execution and delivery of documents such as the Bonds and the Indenture.

(17) Copies of the resolution adopted by the Authority and certified by the Secretary of the Authority authorizing the execution and delivery of the Authority Documents and the Official Statement.

(18) Copies of the resolution adopted by the District and certified by the Secretary of the Board of Directors, authorizing the execution and delivery of the District Documents and the Official Statement.

(19) Tax certifications by the Authority and the District in form and substance acceptable to Bond Counsel.

(20) A Certificate of the Bank, dated the Closing Date to the effect that:

(i) The Bank is duly organized and existing as a national banking association in good standing under the laws of the United States, having the full power and authority to accept and perform its duties under the Bank Documents;

(ii) Subject to the provisions of the Bank Documents, the Bank will apply the proceeds from the Bonds to the purposes specified in the Indenture; and

(iii) The Bank has duly authorized and executed the Bank Documents.

(21) Evidence that the Bonds have been rated as set forth in the Official Statement and that such ratings continue in effect as of the Closing.

(22) The Insurance Policy, duly executed by the Insurer.

(23) The Reserve Surety Policy, duly executed by the Insurer.

(24) The debt service reserve fund agreement related to the Reserve Surety Policy, executed by the Authority, the District and the Insurer.

(25) An opinion of counsel to the Insurer, dated the Closing Date, addressed to the Authority and the Underwriter, in form and substance satisfactory to the Underwriter and Bond Counsel.

(26) A certificate or certificates of the Insurer, dated the Closing Date, as to the accuracy of the information relating to the Insurer, the Insurance Policy and the Reserve Surety Policy included in the Official Statement and such other matters reasonably requested by the Underwriter and Bond Counsel.

(27) Evidence that a federal tax information form 8038-G has been prepared for filing with respect to the Bonds.

(28) A copy of the Notice of Final Sale required to be delivered to the California Debt and Investment Advisory Commission pursuant to Section 8855 of the California Government Code.

(29) Such additional legal opinions, certificates, proceedings, instruments and other documents as Bond Counsel, the Underwriter and Underwriter Counsel may reasonably request to evidence compliance with legal requirements, the truth and accuracy, as of the time of Closing, of the representations contained herein and in the Official Statement and the due performance or satisfaction by the Trustee and the Authority at or prior to such time of all agreements then to be performed and all conditions then to be satisfied.

(c) All matters relating to this Purchase Agreement, the Bonds and the sale thereof, the Legal Documents and the consummation of the transactions contemplated by this Purchase Agreement shall have been approved by the Underwriter, such approval not to be unreasonably withheld.

If the conditions to the Underwriter's obligations contained in this Purchase Agreement are not satisfied or if the Underwriter's obligations shall be terminated for any reason permitted by this Purchase Agreement, this Purchase Agreement shall terminate and neither the Underwriter, the District nor the Authority shall have any further obligation hereunder.

10. The Underwriter shall have the right to terminate this Purchase Agreement, without liability therefore, by written notification to the Authority and the District if at any time at or prior to the Closing:

(i) Any event shall occur which causes any statement contained in the Official Statement to be materially misleading or results in a failure of the Official Statement to state a material fact necessary to make the statements in the Official Statement, in the light of the circumstances under which they were made, not misleading; or

(ii) Legislation shall be enacted by or introduced in the Congress of the United States or recommended to the Congress for passage by the President of the United States, or the Treasury Department of the United States or the Internal Revenue Service or favorably reported for passage to either House of the Congress by any committee of such House to which such legislation has been referred for consideration, a decision by a court of the United States or of the State or the United States Tax Court shall be rendered, or an order, ruling, regulation (final, temporary or proposed), press release, statement or other form of notice by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency shall be made or proposed, the effect of any or all of which would be to alter, directly or indirectly, federal income taxation upon interest received on obligations of the general character of the Bonds, or the interest on the Bonds as described in the Official Statement, or other action or events shall have transpired which may have the purpose or effect, directly or indirectly, of changing the federal income tax consequences of any of the transactions contemplated herein; or

(iii) Legislation introduced in or enacted (or resolution passed) by the Congress or an order, decree, or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary, or proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds are not exempt from registration under or other requirements of the Securities Act of 1933, as amended, or that the Indenture is not exempt from qualification under or other requirements of the Trust Indenture Act of 1939, as amended, or that the issuance, offering, or sale of obligations of the general character of the Bonds, as contemplated hereby or by the Official Statement or otherwise, is or would be in violation of the federal securities law as amended and then in effect; or

(iv) A general suspension of trading in securities on the New York Stock Exchange or any other national securities exchange, the establishment

of minimum or maximum prices on any such national securities exchange, the establishment of material restrictions (not in force as of the date hereof) upon trading securities generally by any governmental authority or any national securities exchange, or any material increase of restrictions now in force (including, with respect to the extension of credit by, or the charge to the net capital requirements of, the Underwriter); or

(v) A general banking moratorium shall have been established by federal, State of New York or California authorities; or

(vi) Establishment of any new restrictions in securities materially affecting the free market for securities of the same nature as the Bonds (including the imposition of any limitations on interest rates) or the charge to the net capital requirements of the Underwriter established by the New York Stock Exchange, the Securities and Exchange Commission, any other Federal or state agency or the Congress of the United States, or by Executive Order; or

(vii) The occurrence of an adverse event in the affairs of the District or the Authority which, in the opinion of the Underwriter, materially impairs the investment quality of the Bonds; or

(viii) Any amendment to the federal or California Constitution or action by any federal or California court, legislative body, regulatory body or other authority materially adversely affecting the tax status of the District or the Authority, its property, income or securities (or interest thereon), or the ability of the District to execute the Installment Purchase Agreement or the Authority to issue the Bonds and pledge the Revenues as contemplated by the Indenture and the Official Statement; or

(ix) There shall have occurred any (1) new material outbreak of hostilities (including, without limitation, an act of terrorism) or (2) new material other national or international calamity or crisis, or any material adverse change in the financial, political or economic conditions affecting the United States, including, but not limited to, an escalation of hostilities that existed prior to the date hereto; or

(x) There shall have occurred any materially adverse change in the affairs or financial position, results of operations or condition, financial or otherwise, of the District or the Authority, other than changes in the ordinary course of business or activity or in the normal operation of the District or the Authority, except as described in the Official Statement; or

(xi) Any event occurring, or information becoming known which, in the reasonable judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Preliminary Official Statement or the Official Statement, or results in the Preliminary Official Statement or the Official Statement containing any untrue statement of a material fact or omitting to state a material fact required to be stated therein

or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; or

(xii) An event described in Section 7(j) or 8(j) hereof shall have occurred which, in the reasonable professional judgment of the Underwriter, requires the preparation and publication of a supplement or amendment to the Official Statement; or

(xiii) Any rating of the Bonds or other obligations of the Insurer by a national rating agency shall have been withdrawn or downgraded; or

(xiv) Any rating of the Bonds or other obligations of the District or the Authority by a national rating agency shall have been withdrawn or downgraded or placed on negative outlook or negative watch.

11. Performance by the Authority and the District of their respective obligations under this Purchase Agreement is conditioned upon (i) performance by the Underwriter of its obligations hereunder, and (ii) receipt by the Underwriter of all opinions and certificates to be delivered at Closing by persons and entities other than the Authority or the District.

12. After the Closing and until the End Date (a) neither the Authority nor the District will adopt any amendment of or supplement to the Official Statement to which the Underwriter shall object in writing or which shall be disapproved by the Underwriter, and (b) if any event relating to or affecting the Authority or the District shall occur as a result of which it is necessary, in the opinion of the Underwriter, to amend or supplement the Official Statement in order to make the Official Statement not misleading in the light of the circumstances existing at the time it is delivered to an initial purchaser of the Bonds, and the Authority will forthwith prepare and furnish to the Underwriter a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to the Underwriter) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time the Official Statement is delivered to an initial purchaser of the Bonds, not misleading. The costs of preparing any necessary amendment or supplement to the Official Statement to be utilized until the End Date shall be borne by the Authority and any costs incurred thereafter incident to amending or supplementing the Official Statement shall be borne by the Underwriter. For the purposes of this Section, the Authority will furnish such information with respect to itself as the Underwriter may from time to time request.

13. (a) The Underwriter shall be under no obligation to pay, and the District or Authority shall pay or cause to be paid out of the proceeds of the Bonds, all expenses incident to the performance of the District and Authority's obligations hereunder, including but not limited to: the cost of photocopying and delivering the Bonds to the Underwriter; the cost of preparing, printing (and/or word processing and reproducing), distributing and delivering the District Documents and the Authority Documents, and the cost of printing, distributing and delivering the Preliminary Official Statement and the Official Statement in such reasonable quantities as requested by the Underwriter; the cost of preparation of any "blue sky" or legal investment memoranda; and the fees and disbursements of Bond Counsel, Disclosure Counsel, any accountants, financial advisors or other engineers or experts or consultants the District or the Authority have retained in connection with the Bonds and expenses (included in the expense component of the Underwriter's spread) incurred on

behalf of the District or Authority officers or employees which are incidental to implementing this Purchase Agreement, including, but not limited to, meals, transportation, lodging, and entertainment of those officers or employees.

(b) Whether or not the Bonds are delivered to the Underwriter as set forth herein, neither the Authority nor the District shall be under any obligation to pay, and the Authority and District shall not pay, any expenses incurred by the Underwriter in connection with its public offering and distribution of the Bonds (except those specifically enumerated in subsection (a) of this section), including any advertising expenses and the fees of the California Debt and Investment Advisory Commission, the cost of preparation of any “blue sky” or legal investment memoranda and the fees and disbursements of Underwriter’s Counsel.

14. Any notice or other communication to be given to the Underwriter may be given by delivering the same to Piper Jaffray & Co. 2321 Rosecrans Avenue, Suite 3200, El Segundo, California 90245; Attention: Russell Reyes. Any notice or other communication to be given to the Authority or the District may be given by delivering the same to addresses initially provided herein, Attention: General Manager. The approval of the Underwriter when required hereunder or the determination of satisfaction as to any document referred to herein shall be in writing signed by Piper Jaffray & Co., and delivered to you.

15. This Purchase Agreement is made solely for the benefit of the Authority, the District and the Underwriter (including the successors or assigns thereof) and no other person shall acquire or have any right hereunder or by virtue hereof.

16. This Purchase Agreement may be executed by the parties hereto in separate counterparts, each of which such counterparts shall together constitute but one and the same instrument.

17. The representations and warranties of the District and the Authority set forth in or made pursuant to this Purchase Agreement shall not be deemed to have been discharged, satisfied or otherwise rendered void by reason of the Closing or termination of this Purchase Agreement and regardless of any investigations made by or on behalf of the Underwriter (or statements as to the results of such investigations) concerning such representations and warranties of the District and the Authority and regardless of delivery of and payment for the Bonds.

18. The primary role of the Underwriter, as underwriter, is to purchase the Bonds for resale to investors in an arms-length commercial transaction among the District, the Authority and the Underwriter. The Underwriter has financial and other interests that differ from those of the District and the Authority.

19. This Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the District, the Authority and the Underwriter and shall be valid and enforceable as of the time of such acceptance.

20. This Purchase Agreement shall be governed by the laws of the State of California. This Purchase Agreement shall not be assigned by either party hereto.

21. This Purchase Agreement supersedes and replaces all prior negotiations, agreements and understandings between the parties hereto in relation to the sale of Bonds by the District and the Authority and represents the entire agreement of the parties as to the subject matter herein.

22. Any provision of this Purchase Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Purchase Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

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23. This Purchase Agreement shall be governed by the laws of the State of California.

PIPER JAFFRAY & CO.

By: _____

Title: _____

The foregoing is hereby agreed to and accepted as of the date first above written:

PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY

By: _____

Authorized Officer

Time of Execution: _____ p.m. California time

PALMDALE WATER DISTRICT

By: _____

Authorized Officer

Time of Execution: _____ p.m. California time

[EXECUTION PAGE OF BOND PURCHASE AGREEMENT]

EXHIBIT A

\$ _____

**PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY
WATER REVENUE BONDS, SERIES 2018A**

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>10% Test Satisfied*</u>	<u>10% Test Not Satisfied</u>	<u>Subject to Hold-The- Offering- Price Rule</u>
2018							
2019							
2020							
2021							
2022							
2023							
2024							
2025							
2026							
2027							
2028							
2029							
2030							
2031							
2032							
2033							
2033							
2034							
2035							
2035							
2036							
2037							
2038							
2039							
20__ ^(T)							

^(T) Term Bond.

^(C) Priced to optional call at [par] on October 1, 20__.

^(I) Insured Bond.

* At the time of execution of this Purchase Agreement and assuming orders are confirmed by the close of the business day immediately following the date of this Purchase Agreement.

EXHIBIT B

\$ _____

**PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY
WATER REVENUE BONDS, SERIES 2018A**

FORM OF ISSUE PRICE CERTIFICATE

[TO COME AT PRICING]

INDENTURE OF TRUST

by and between

**THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
as Trustee**

and

**PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY,
as Issuer**

Relating to

\$ _____

**PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY
WATER REVENUE BONDS, SERIES 2018A**

Dated as of _____ 1, 2018

TABLE OF CONTENTS

Page

ARTICLE I DEFINITIONS; EQUAL SECURITY

Section 1.01	Definitions	1
Section 1.02	Equal Security	10

ARTICLE II CONDITIONS AND TERMS OF BONDS

Section 2.01	Preparation of Bonds	10
Section 2.02	Denominations; Dating	10
Section 2.03	Payment of Principal and Interest with Respect to Bonds	10
Section 2.04	Form of Bonds	12
Section 2.05	Execution of Bonds.....	12
Section 2.06	Transfer of Bonds	12
Section 2.07	Exchange of Bonds	13
Section 2.08	Bond Registration Books	13
Section 2.09	Bonds Mutilated, Lost, Destroyed or Stolen.....	13
Section 2.10	Book-Entry System.....	14

ARTICLE III PROCEEDS OF BONDS

Section 3.01	Delivery of Bonds	16
Section 3.02	Establishment of Funds and Accounts and Deposit and Use of Proceeds of Bonds	16
Section 3.03	Construction Fund.....	17

ARTICLE IV REDEMPTION OF BONDS

Section 4.01	Redemption of Bonds	18
Section 4.02	Selection of Bonds To Be Redeemed	19
Section 4.03	Notice of Redemption.....	19
Section 4.04	Partial Redemption of Bonds	20
Section 4.05	Effect of Redemption of Bonds	20

ARTICLE V ASSIGNMENT AND APPLICATION OF REVENUES

Section 5.01	Assignment of Revenues	20
Section 5.02	Deposit of Revenues	20
Section 5.03	Rebate Fund	21
Section 5.04	Reserve Fund	23
Section 5.05	Claims Upon the Insurance Policy and Payments by and to the Insurer	24
Section 5.06	Payments by the Insurer as a Result of Nonpayment	25

ARTICLE VI COVENANTS

Section 6.01	Compliance With Indenture and Installment Purchase Agreement	26
--------------	--	----

TABLE OF CONTENTS
(continued)

	Page
Section 6.02	Tax Covenants 26
Section 6.03	Prosecution and Defense of Suits 27
Section 6.04	Accounting Records and Statements 27
Section 6.05	Further Assurances 27

ARTICLE VII
DEFAULT AND LIMITATIONS OF LIABILITY

Section 7.01	Events of Default 27
Section 7.02	Remedies Upon Event of Default 28
Section 7.03	Application of Revenues and Other Funds After Default..... 28
Section 7.04	Trustee to Represent Bond Owners 29
Section 7.05	Bond Owners' Direction of Proceedings 30
Section 7.06	Limitation on Bond Owners' Right to Sue 30
Section 7.07	Absolute Obligation of Issuer 30
Section 7.08	Termination of Proceedings 31
Section 7.09	Right of Mandamus; Remedies Not Exclusive 31
Section 7.10	No Waiver of Default 31
Section 7.11	Insurer Rights..... 31

ARTICLE VIII
THE TRUSTEE

Section 8.01	Employment and Duties of the Trustee 31
Section 8.02	Removal and Resignation of the Trustee 32
Section 8.03	Compensation and Indemnification of the Trustee 32
Section 8.04	Protection of the Trustee..... 33
Section 8.05	Notice to Insurer by Trustee 35

ARTICLE IX
AMENDMENT OF OR SUPPLEMENT TO THE INDENTURE

Section 9.01	Amendment or Supplement by Consent of Owners 35
Section 9.02	Disqualified Bonds 36
Section 9.03	Endorsement or Replacement of Bonds After Amendment or Supplement 37
Section 9.04	Amendment or Supplement by Mutual Consent..... 37
Section 9.05	Effect of Insurance Policy..... 37

ARTICLE X
DEFEASANCE

Section 10.01	Discharge of Bonds and Indenture..... 37
Section 10.02	Unclaimed Money..... 40

ARTICLE XI
MISCELLANEOUS

Section 11.01	Benefits of the Indenture Limited to Parties 40
Section 11.02	Successor Deemed Included in All References to Predecessor 40
Section 11.03	Execution of Documents by Owners 40

TABLE OF CONTENTS
(continued)

		Page
Section 11.04	Waiver of Personal Liability	41
Section 11.05	Content of Certificates	41
Section 11.06	Notice by Mail	41
Section 11.07	Funds.....	42
Section 11.08	Deposits and Investments	42
Section 11.09	Article and Section Headings, Gender and References	43
Section 11.10	Partial Invalidity	43
Section 11.11	California Law	43
Section 11.12	Insurer as Third Party Beneficiary	43
Section 11.13	No Impairment of Insurer’s Rights	43
Section 11.14	Insurer Consideration.....	43
Section 11.15	Amounts Paid by Insurer	43
Section 11.16	Covenant to Preserve Priority	44
Section 11.17	Subrogation and Survival of Obligations.....	44
Section 11.18	Reimbursement of Fees	44
Section 11.19	Provision of Information.....	44
Section 11.20	Additional Information	45
Section 11.21	Discussion of and Access to Information	45
Section 11.22	Notices	45
Section 11.23	Execution in Counterparts	46
Section 11.24	Effective Date	46
Signatures	S-1
EXHIBIT A	FORM OF BOND.....	A-1

INDENTURE OF TRUST

This INDENTURE OF TRUST (the “Indenture”), dated as of _____ 1, 2018, by and between THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., a national banking association duly organized and existing under and by virtue of the laws to the United States of America (the “Trustee”) and PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY, a joint powers authority duly organized and existing under the laws of the State of California (the “Issuer”);

WITNESSETH

WHEREAS, the Issuer desires to assign without recourse all its rights to receive the Revenues (as hereinafter defined) scheduled to be paid by the Palmdale Water District (“the District”) to the Issuer under and pursuant to the Installment Purchase Agreement (as hereinafter defined); and

WHEREAS, in consideration of such assignment and the execution and entering into of this Indenture, the Trustee has agreed to authenticate and deliver bonds (the “Bonds”) in an aggregate principal amount equal to \$_____; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Indenture do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Indenture;

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

ARTICLE I

DEFINITIONS; EQUAL SECURITY

Section 1.01 Definitions. Capitalized terms used herein and not otherwise defined herein shall have the respective meanings ascribed to such terms in the Installment Purchase Agreement. Unless the context otherwise requires, the terms defined in this Section shall for all purposes hereof and of any amendment hereof or supplement hereto and of the Bonds and of any certificate, opinion, request or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein:

Annual Debt Service. The term “Annual Debt Service” means, for each Bond Year, the sum of (a) the interest payable on the Outstanding Bonds in such Bond Year, and (b) the principal amount of the Outstanding Bonds scheduled to be paid in such Bond Year.

Authority. The term “Authority” means the Palmdale Water District Public Financing Authority.

Authorized Denominations. The term “Authorized Denominations” means \$5,000 or any integral multiple thereof.

Bond Payment Fund. The term “Bond Payment Fund” means the fund by that name established pursuant to Section 3.02.

Bond Year. The term “Bond Year” means each twelve month period extending from October 2 in one calendar year to October 1 of the succeeding calendar year, except in the case of the initial Bond Year which shall be the period from the Closing Date of the Bonds to September 1, 2018, both dates inclusive.

Bonds. The term “Bonds” means the Palmdale Water District Public Financing Authority Water Revenue Bonds, Series 2018A in the aggregate principal amount of \$_____.

Book-Entry System. The term “Book-Entry System” means the system maintained by the Securities Depository and described in Section 2.10 hereof.

Business Day. The term “Business Day” means any day other than: (i) a Saturday or Sunday; or (ii) a day on which banks located in the city in which the Corporate Trust Office of the Trustee is located are authorized or required to remain closed; or (iii) a day on which The New York Stock Exchange is closed.

Certificate; Request. The term “Certificate” or “Request” means: (i) with respect to the District, an instrument in writing signed on behalf of the District by the General Manager, or by any other officer of the District duly authorized by the District’s Board of Directors to sign documents on its behalf with respect to the matters referred to therein; and (ii) with respect to the Issuer, by the Executive Director of the Issuer, or by any other officer of the Issuer duly authorized by the Board of Directors of the Issuer to sign documents on its behalf with respect to the matters referred to therein.

Code. The term “Code” means the Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations in effect with respect thereto.

Construction Fund. The term “Construction Fund” means the fund by that name established in accordance with Section 3.03 hereof.

Defeasance Securities. The term “Defeasance Securities” means: (1) cash, (2) non-callable direct obligations of the United States of America (“Treasures”), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasures held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasures are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) subject to the prior written consent of the Insurer (so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy), pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively, and (5) subject to the prior written consent of the Insurer (so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy), securities eligible for “AAA” defeasance under then existing criteria of S&P.

Delivery Date. The term “Delivery Date” means the date of the delivery of the Bonds to the initial purchaser thereof.

Depository. The term “Depository” means DTC or another recognized securities depository selected by the Issuer which maintains a book-entry system for the Bonds.

District. The term “District” means the Palmdale Water District.

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

Event of Default. The term “Event of Default” means an Event of Default as defined in Section 8.1 of the Installment Purchase Agreement.

Executive Director. The term “Executive Director” means the Executive Director of the Issuer.

Favorable Opinion of Special Counsel. The term “Favorable Opinion of Special Counsel” means an opinion of Special Counsel addressed to the District and the Trustee to the effect that an action proposed to be taken is not prohibited by the laws of the State or this Indenture and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

Fitch. The term “Fitch” means Fitch Ratings, Inc., its successors and assigns.

General Manager. The term “General Manager” means the General Manager of the District.

Hazardous Substances. The term “Hazardous Substances” means any hazardous substances, wastes, pollutants or contaminants now or hereafter included in such (or any similar) term under any federal, state, or local statute, code, ordinance or regulation now in effect or hereafter enacted or amended.

Independent Certified Public Accountant. The term “Independent Certified Public Accountant” means any form of certified public accountants appointed by the Issuer which is independent pursuant to the Statement on Auditing Standards No. I of the American Institute of Certified Public Accountants.

Indenture. The term “Indenture” means this Indenture of Trust executed and entered into as of _____ 1, 2018 by and between the Trustee and the Issuer, as originally executed and entered into and as it may from time to time be amended or supplemented in accordance herewith.

Information Services. The term “Information Services” means national information services that disseminate securities redemption notices; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the District may specify in a Certificate to the Trustee.

Installment Payment Date. The term “Installment Payment Date” means each date on which Installment Payments are scheduled to be paid by the District pursuant to the Installment Purchase Agreement.

Installment Payments. The term “Installment Payments” means the installment payments payable by the District pursuant to the Installment Purchase Agreement and in the amounts and at the times set forth in the Installment Purchase Agreement.

Installment Purchase Agreement. The term “Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of _____ 1, 2018, by and between the District and the Issuer, as originally executed or as it may from time to time be amended or supplemented in accordance with its terms.

Insurance Policy. The term “Insurance Policy” means the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds when due.

Insurer. The term “Insurer” means _____, or any successor thereto or assignee thereof.

Interest Account. The term “Interest Account” means the account by that name established pursuant to Section 3.02 hereof.

Interest Payment Date. The term “Interest Payment Date” means April 1 and October 1 of each year, commencing _____.

Issuance Costs. The term “Issuance Costs” means all the costs of issuing and delivering the Bonds, including, but not limited to, all printing and document preparation expenses in connection with this Indenture, the Installment Purchase Agreement, the Bonds and any preliminary official statement and final official statement pertaining to the Bonds, rating agency fees, CUSIP Service Bureau charges, market study fees, legal fees and expenses of counsel with the issuance and delivery of the Bonds, the initial fees and expenses of the Trustee and its counsel and other fees and expenses incurred in connection with the issuance and delivery of the Bonds, to the extent such fees and expenses are approved by the District.

Issuance Costs Fund. The term “Issuance Costs Fund” means the fund by that name established pursuant to Section 3.02 hereof.

Issuer. The term “Issuer” means the Palmdale Water District Public Financing Authority, a joint powers authority duly organized and existing under and by virtue of the laws of the State of California.

Letter of Representations. The term “Letter of Representations” means the letter of the District and the Trustee delivered to and accepted by the Depository on or prior to delivery of the Bonds as book-entry certificates setting forth the basis on which the Depository serves as depository for such book-entry certificates, as originally executed or as it may be supplemented or revised or replaced by a letter from the District and the Trustee delivered to and accepted by the Depository.

Maturity Date. The term “Maturity Date” means October 1 of each year in which principal payments are due on the Bonds commencing in 20__ and ending in 20__.

Maximum Annual Debt Service. The term “Maximum Annual Debt Service” means, as of the date of any calculation, the largest Annual Debt Service during the current or any future Bond Year.

Moody's. The term "Moody's" means Moody's Investors Service, Inc., its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, "Moody's" will be deemed to refer to any other nationally recognized securities rating agency (other than S&P) designated by the Issuer by written notice to the Trustee.

Nominee. The term "Nominee" means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to Section 2.10 hereof.

Outstanding. The term "Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 9.02) all Bonds except: (i) Bonds canceled by the Trustee or delivered to the Trustee for cancellation; (ii) Bonds paid or deemed to have been paid within the meaning of Section 10.01; and (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to this Indenture.

Owner. The term "Owner" or "Bond Owner" or "Owner of Bonds" or any similar term, when used with respect to the Bonds, means any person who shall be the registered owner of any Outstanding Bond.

Participant. The term "Participant" means, with respect to DTC or another Securities Depository, a member of or participant in DTC or such other Securities Depository, respectively.

Person. The term "Person" means a natural person or any legal entity.

Permitted Investments. The term "Permitted Investments" means any of the following, if and to the extent permitted by law and by any policy guidelines promulgated by the Issuer (provided that the Trustee shall be entitled to rely upon any investment directions from the Issuer as conclusive certification to the Trustee that the investments described therein comply with any policy guidelines promulgated by the Issuer and are so authorized under the laws of the State of California).

The following obligations may be used as Permitted Investments for all purposes, including defeasance investments in refunding escrow agreements.

- (a) Cash (insured at all times by the Federal Deposit Insurance Corporation); and
- (b) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including: U.S. treasury obligations; All direct or fully guaranteed obligations; Farmers Home Administration; General Services Administration; Guaranteed Title XI financing; Government National Mortgage Association (GNMA); and State and Local Government Series.

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

The following obligations may be used as Permitted Investments for all purposes other than defeasance investments in refunding escrow accounts.

- (c) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: Export-Import Bank; Rural Economic Community Development Administration; Federal Farm Credit Bureau; U.S. Maritime Administration; Small Business Administration; U.S. Department of Housing & Urban Development (PHAs); and Federal Housing Administration and Federal Financing Bank;
- (d) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC); Obligations of the Resolution Funding Corporation (REFCORP); Senior debt obligations of the Federal Home Loan Bank System; and Senior debt obligations of other Government Sponsored Agencies;
- (e) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which may include the Trustee and its affiliates which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
- (f) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's or "A-1" by S&P and which matures not more than 270 calendar days after the date of purchase;
- (g) Investments in a money market fund rated "AAm", "AAAm" or "AAAm-G" or better by S&P, including such funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services or for which the Trustee or an affiliate of the Trustee serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives and retains a fee for services provided to the fund, (ii) the Trustee collects fees for services rendered pursuant to this Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to this Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee;
- (h) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice:
 - (1) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or

- (2) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (b) above, which escrow may be applied only to the payment of such principal and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;
- (i) Municipal Obligations rated “Aaa/AAA” or general obligations of States with a rating of “A2/A” or higher by both Moody’s and S&P;
- (j) Investment Agreements (supported by appropriate opinions of counsel);
- (k) the Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name;
- (l) Local Government Investment Pools (LGIP). Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code §6509.7. To be eligible for purchase, the pool must meet the requirements of CGC §53601(p); and
- (m) Certificates of deposit insured by the Federal Deposit Insurance Corporation.

The value of the above investments shall be determined as follows:

- (a) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at cost;
- (b) As to certificates of deposit and bankers’ acceptances: the face amount thereof, plus, accrued interest thereon; and
- (c) As to any investment not specified above: the value thereof established by prior agreement among the Issuer and the Trustee.

Principal Account. The term “Principal Account” means the account by that name established pursuant to Section 3.02 hereof.

Principal Corporate Trust Office. The term “Principal Corporate Trust Office” means the principal corporate trust office of the Trustee in Los Angeles, California, or such other office as the Trustee may from time to time designate in writing to the District, the Issuer and the Owners, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

Project. The term “Project” has the meaning given in the Installment Purchase Agreement.

Project Costs. The term “Project Costs” means all costs of acquiring, constructing and installing the Project, including, but not limited to:

(a) all costs which the Issuer or the District shall be required to pay to a seller or any other person under the terms of any contract or contracts for the purchase of the Project;

(b) all costs which the Issuer or the District shall be required to pay a contractor or any other person for the acquisition, construction and installation of the Project;

(c) obligations of the Issuer or the District incurred for services (including obligations payable to the Issuer or the District for actual out-of-pocket expenses of the Issuer or the District) in connection with the acquisition, construction and installation of the Project, including reimbursement to the Issuer or the District for all advances and payments made in connection with the Project prior to or after delivery of the Bonds;

(d) the actual out-of-pocket costs of the Issuer or the District for surveys, estimates and preliminary investigations therefor, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the Project, including administrative expenses relating to the acquisition, construction and installation of the Project; and

(e) any sums required to reimburse the Issuer or the District for advances made by the Issuer or the District for any of the above items or for any other costs incurred and for work done by the Issuer or the District which are properly chargeable to the Project.

Rebate Fund. The term “Rebate Fund” means the fund by that name established and held by the Trustee pursuant to Section 5.03 hereof.

Record Date. The term “Record Date” means the fifteenth (15th) day of the month immediately preceding an Interest Payment Date whether or not such day is a Business Day.

Redemption Account. The term “Redemption Account” means the account by that name established pursuant to Section 3.02.

Redemption Price. The term “Redemption Price” means, with respect to any Bond (or portion thereof), the principal amount with respect to such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and this Indenture.

Reserve Fund. The term “Reserve Fund” means the fund by that name established pursuant to Section 5.04.

Reserve Requirement. The term “Reserve Requirement” means, with respect to the Bonds, as of any date of calculation, an amount not to exceed the lesser of (i) Maximum Annual Debt Service, (ii) 125% of average Annual Debt Service, or (iii) 10% of the principal amount of such Bonds then outstanding. Notwithstanding the foregoing, in no event shall the Reserve Requirement exceed \$_____, the initial Reserve Requirement.

Reserve Surety Policy. The term “Reserve Surety Policy” means the municipal bond debt service reserve insurance policy issued by the Insurer and deposited in the Reserve Fund to satisfy the Reserve Requirement.

Revenues. The term “Revenues” means amounts received by the Issuer pursuant to or with respect to the Installment Purchase Agreement and all interest or gain derived from the investment of amounts in any of the funds or accounts established hereunder.

Securities Depository. The term “Securities Depository” means DTC or, if applicable, any successor securities depository appointed pursuant to Section 2.10 hereof.

Sinking Account. The term “Sinking Account” means the account established pursuant to section 5.02 hereof.

Special Counsel. The term “Special Counsel” means any attorney at law or firm of attorneys selected by the District, of nationally-recognized standing in matters pertaining to the federal tax exemption of interest with respect to obligations of states and political subdivisions.

S&P. The term “S&P” means S&P Global Ratings, a Standard & Poor’s Financial Services, LLC business, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “S&P” will be deemed to refer to any other nationally recognized securities rating agency (other than Moody’s) designated by the Issuer by written notice to the Trustee.

State. The term “State” means the State of California.

Statement of the Issuer or the District. The term “Statement of the Issuer or the District” means a statement signed by or on behalf of: (i) the Issuer by its President, Treasurer or Executive Director; or (ii) the District by the President, General Manager or the Finance Director or by any two persons (whether or not officers of the District) who are specifically authorized by resolution of the District to sign or execute such a document on its behalf.

Tax Certificate. The term “Tax Certificate” means the Tax Certificate dated the date of initial issuance of the Bonds, concerning certain matters pertaining to the use and investment of proceeds of the Bonds executed by and delivered to the District on the date of execution and delivery of the Bonds, including any and all exhibits attached thereto.

Term Bonds. The term “Term Bonds” means the Bonds maturing on October 1, 20__ which are subject to mandatory sinking fund redemption.

Trustee. The term “Trustee” means The Bank of New York Mellon Trust Company, N.A., a national banking association, duly organized and existing under and by virtue of the laws of the United States, having a principal corporate trust office in Los Angeles, California, or its successor as Trustee hereunder.

Written Consent of the Issuer or the District; Written Order of the Issuer or the District; Written Request of the Issuer or the District; Written Requisition of the Issuer or the District. The terms “Written Consent of the Issuer or the District,” “Written Order of the Issuer or the District,” “Written Request of the Issuer or the District,” and “Written Requisition of the Issuer or the District” mean, respectively, a written consent, order, request or requisition signed by or on behalf of: (i) the

Issuer by its President, Treasurer, Executive Director; or (ii) the District by the President, General Manager or its Finance Director or by any two persons who are specifically authorized by resolution of the District to sign or execute such a document on its behalf.

Section 1.02 Equal Security. In consideration of the acceptance of the Bonds by the Owners, the Indenture shall be deemed to be and shall constitute a contract between the Trustee and the Owners to secure the full and final payment of the interest and principal and redemption premiums, if any, on the Bonds, subject to the agreements, conditions, covenants and terms contained herein, including without limitation the terms included in Article VIII hereof; and all agreements, conditions, covenants and terms contained herein required to be observed or performed by or on behalf of the Trustee shall be for the equal and proportionate benefit, protection and security of all Owners without distinction, preference or priority as to benefit, protection or security of any Bonds over any other Bonds by reason of the number or date thereof or the time of sale, execution or delivery thereof or otherwise for any cause whatsoever, except as expressly provided herein or therein.

ARTICLE II

CONDITIONS AND TERMS OF BONDS

Section 2.01 Preparation of Bonds. The Trustee is hereby authorized to authenticate and deliver the Bonds, to be denominated “Palmdale Water District Public Financing Authority Revenue Refunding Bonds, Series 2018A” in an aggregate principal amount of \$_____.

Section 2.02 Denominations; Dating. The Bonds shall be prepared in the form of fully registered Bonds in Authorized Denominations. The Bonds shall be dated the initial date of delivery thereof.

Section 2.03 Payment of Principal and Interest with Respect to Bonds.

(a) **Bonds.** Bonds shall become payable on October 1 of each of the years in the principal amounts, and shall bear interest at the rates, set forth below:

<i>Maturity Date (October 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>
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(b) Amounts Due. Principal or Redemption Price due on the Bonds at maturity or redemption thereof, whichever is earlier, shall, to the extent of the aggregate principal amount stated upon the Bonds, represent the sum of those portions of the Installment Payments designated as principal coming due on the Installment Payment Dates immediately preceding the Payment Dates in each year.

(c) Payment of Interest. Interest on the Bonds shall be paid on each Interest Payment Date and redemption date and on the Maturity Date therefor. However, if, as shown by the records of the Trustee, interest on the Bonds is in default, Bonds issued in exchange for Bonds surrendered for registration of transfer or exchange shall bear interest from the date to which interest has been paid in full on the Bonds so surrendered or, if no interest has been paid on the Bonds, from the date thereof.

(d) Interest Accrual. Interest on the Bonds shall accrue on the basis of a 360-day year based on twelve 30-day months.

(e) Method and Place of Payment. The principal of and premium, if any, and interest on the Bonds shall be payable in lawful money of the United States of America. Such amounts shall be paid by the Trustee on the applicable payment dates by check mailed by the Trustee to the respective Owners thereof on the applicable Interest Payment Date at their addresses as they appear as of the close of business on the applicable Record Date in the registration books kept by the

Trustee, except that in the case of such an Owner of \$1,000,000 or more in aggregate principal amount of Bonds, upon the written request of such Owner to the Trustee at least two Business Days before the Record Date, specifying the account or accounts in the United States to which such payment shall be made, such payments shall be made by wire transfer of immediately available funds on the applicable payment date following such Record Date. Any request referred to in the preceding sentence shall remain in effect until revoked or revised by such Owner by an instrument in writing delivered to the Trustee. When a Book-Entry System is in effect, interest may be paid by wire transfer in accordance with mutually satisfactory arrangements between the Trustee and the Securities Depository. Principal and interest will be paid in money of the United States that at the time of payment is legal tender for payment of public and private debts or by checks or wire transfers payable in such money.

Section 2.04 Form of Bonds. The Bonds and the form of assignment to appear thereon shall be in substantially the form set forth in Exhibit A hereto with necessary or appropriate variations, omissions and insertions as permitted or required by this Indenture.

Section 2.05 Execution of Bonds. The Bonds shall be executed in the name and on behalf of the Issuer with the manual or facsimile signature of its President, attested by the manual or facsimile signature of its Secretary. The Bonds shall then be delivered to the Trustee for authentication by it. In case any of the officers who shall have signed or attested any of the Bonds shall cease to be such officer or officers of the Issuer before the Bonds so signed or attested shall have been authenticated or delivered by the Trustee, or issued by the Issuer, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Issuer as though those who signed and attested the same had continued to be such officers of the Issuer, and also any Bonds may be signed and attested on behalf of the Issuer by such persons as at the actual date of execution of such Bonds shall be the proper officers of the Issuer although at the nominal date of such Bonds any such person shall not have been such officer of the Issuer.

Only such of the Bonds as shall bear thereon a certificate of authentication substantially in the form set forth in Exhibit A hereto, manually executed by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of or on behalf of the Trustee shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

Section 2.06 Transfer of Bonds. In the event that the Bonds are no longer held in book-entry form, the following transfer and exchange provisions shall apply. Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.08, by the person in whose name it is registered, in person or by such person's duly authorized attorney, upon surrender of such Bond for cancellation at the Principal Corporate Trust Office of the Trustee, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee.

Whenever any Bond or Bonds shall be surrendered for transfer, the Trustee shall authenticate and deliver a new Bond or Bonds of the same series and maturity, for a like aggregate principal amount and of authorized denomination or denominations. The Trustee may charge a sum for each new Bond authenticated and delivered upon any transfer. The Trustee may require the payment by any Bond Owner requesting any such transfer of any tax or other governmental charge required to be

paid with respect to such transfer. Following any transfer of Bonds the Trustee shall cancel and destroy the Bonds it has received.

Section 2.07 Exchange of Bonds. Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee, for a like aggregate principal amount of Bonds of other authorized denominations of the same series and maturity. The Trustee may charge a sum for each new Bond authenticated and delivered upon any exchange except in the case of any exchange of temporary Bonds for definitive Bonds. The Trustee may require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of Bonds, the Trustee shall cancel and destroy the Bonds it has received.

The Trustee shall not be required to register the exchange or transfer pursuant to Section 2.06 hereof, of any Bond (i) within 15 days preceding selection of Bonds for redemption or (ii) selected for redemption.

Section 2.08 Bond Registration Books. The Trustee will keep or cause to be kept, at the Principal Corporate Trust Office of the Trustee, sufficient books for the registration and transfer of the Bonds, which shall upon reasonable prior notice and at all reasonable times be open to inspection by the Issuer or 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 said books, Bonds as hereinbefore provided.

The person in whose name any Bond shall be registered shall be deemed the Owner thereof for all purposes hereof, and payment of or on account of the interest on and principal of and Redemption Price represented by such Bond shall be made only to or upon the order in writing of such registered Owner, which payments shall be valid and effectual to satisfy and discharge liability upon such Bond to the extent of the sum or sums so paid.

Section 2.09 Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Trustee shall authenticate and deliver a new Bond of like series, tenor, maturity and principal amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated.

Every mutilated Bond so surrendered to the Trustee shall be canceled by it and destroyed. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given indemnifying the Trustee, the Issuer and the District, the Trustee, at the expense of the Bond Owner, shall authenticate and deliver a new Bond of like series, tenor and maturity, and numbered as the Trustee shall determine, 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 executed under this Section and of the expenses which may be incurred by the Trustee under this Section. Any Bond executed and authenticated under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of this Indenture with all other Bonds secured by this Indenture. The Trustee shall not be required to treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be executed hereunder or for the purpose of determining any percentage of Bonds Outstanding hereunder, but both the original and replacement Bond shall be treated as one and the same. Notwithstanding any other provision of this Section, in lieu of delivering a new Bond for a Bond

which has been mutilated, lost, destroyed or stolen and which has matured or has been selected for redemption, the Trustee may make payment of such Bond upon receipt of indemnity satisfactory to the Trustee.

Section 2.10 Book-Entry System.

(a) Bonds shall be issued in fully registered form and shall be initially issued registered in the name of “Cede & Co.,” as nominee of The Depository Trust Company in accordance with this Section 2.10. The Bonds shall be evidenced by one bond maturing on each stated Maturity Date of Bonds. The Bonds may be assigned by the Trustee a distinctive number or letter and number, and a record of the same shall be maintained by the Trustee. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except as set forth in this Section 2.10.

With respect to book-entry Bonds, the Issuer and the Trustee shall have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such book-entry Bonds. Without limiting the immediately preceding sentence, the Issuer and the Trustee shall have no responsibility or obligation with respect to: (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in book-entry Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the Bond registration books, of any notice with respect to book-entry Bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in book-entry Bonds to be redeemed in the event the Issuer redeems the Bonds in part; or (iv) the payment by the Depository or any Participant or any other person, of any amount with respect to principal, premium, if any, or interest with respect to book-entry Bonds. The Issuer and the Trustee may treat and consider the person in whose name each book-entry Bond is registered in the Bond registration books as the absolute Owner of such book-entry Bond for the purpose of payment of principal, premium and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal, premium, if any, and interest on the Bonds only to or upon the order of the respective Owner, as shown in the Bond register, or his respective attorney duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the Issuer’s obligations with respect to payment of principal of, premium, if any, and interest evidenced and borne by the Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Bond registration books, shall receive a Bond evidencing the obligation to make payments of principal, premium, if any, and interest evidenced and borne by the Bonds. Upon delivery by the Depository to the Owner and the Trustee, of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions herein with respect to Record Dates, the word Nominee in this Indenture shall refer to such nominee of the Depository.

(b) Delivery of Letter of Representations. In order to qualify the book-entry Bonds for the Depository’s book-entry system, the Issuer and the Trustee shall execute and deliver to the Depository, if required by the Depository, a Letter of Representations. The execution and delivery of a Letter of Representations shall not in any way impose upon the Issuer or the Trustee any obligation whatsoever with respect to persons having interests in such book-entry Bonds other than the Owners, as shown on the Bond registration books. By executing a Letter of Representations, the Trustee shall agree to take all action necessary at all times so that the Trustee will be in compliance with all representations of the Trustee in such Letter of Representations. In addition to

the execution and delivery of a Letter of Representations, the Issuer and the Trustee shall take such other actions, not inconsistent with this Indenture, as are reasonably necessary to qualify Book-Entry Bonds for the Depository's book-entry program.

(c) Selection of Depository. In the event that: (i) the Depository determines not to continue to act as securities depository for book-entry Bonds; or (ii) the Issuer determines that continuation of the book-entry system is not in the best interest of the beneficial owners of the Bonds or the Issuer, then the Issuer will discontinue the book-entry system with the Depository. If the Issuer determines to replace the Depository with another qualified securities depository, the Issuer shall prepare or direct the preparation of a new single, separate, fully registered Bond for each of the maturity dates of such book-entry Bonds, registered in the name of such successor or substitute qualified securities depository or its Nominee as provided in subsection (e) hereof. If the Issuer fails to identify another qualified securities depository to replace the Depository, then the Bonds shall no longer be restricted to being registered in such Bond register in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging such Bonds shall designate, in accordance with the provisions of Sections 2.06 and 2.07 hereof.

(d) Payments To Depository. Notwithstanding any other provision of this Indenture to the contrary, so long as all Outstanding Bonds are held in book-entry form and registered in the name of the Nominee, all payments with respect to principal, redemption premium, if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively to the Nominee, as provided in the Letter of Representations or as otherwise instructed by the Depository and agreed to by the Trustee notwithstanding any inconsistent provisions herein.

(e) Transfer of Bonds to Substitute Depository.

(i) The Bonds shall be initially authenticated and delivered as provided in Section 2.01 hereof. Registered ownership of such Bonds, or any portions thereof, may not thereafter be transferred except:

(A) to any successor of DTC or its nominee, or of any substitute depository designated pursuant to clause (B) of subsection (i) of this subsection ("Substitute Depository"); provided that any successor of DTC or Substitute Depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

(B) to any Substitute Depository, upon: (i) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (ii) a determination by the Issuer that DTC (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(C) to any person as provided below, upon: (i) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository, or; (ii) a determination by the Issuer that DTC or its successor (or Substitute Depository or its successor) is no longer able to carry out its functions as depository.

(ii) In the case of any transfer pursuant to clause (A) or clause (B) of subsection (i) of this subsection, upon receipt of all Outstanding Bonds by the Trustee, together with a written request of the Issuer to the Trustee designating the Substitute Depository, a single new

Bond, which the Issuer shall prepare or cause to be prepared, shall be authenticated and delivered for each series and maturity of Bonds then Outstanding, registered in the name of such successor or such Substitute Depository or their Nominees, as the case may be, all as specified in such written request of the Issuer. In the case of any transfer pursuant to clause (C) of subsection (i) of this subsection, upon receipt of all Outstanding Bonds by the Trustee, together with a written request of the Issuer to the Trustee, new Bonds, which the Issuer shall prepare or cause to be prepared, shall be authenticated and delivered in such denominations and registered in the names of such persons as are requested in such written request of the Issuer, subject to the limitations of Section 2.01 hereof, provided that the Trustee shall not be required to deliver such new Bonds within a period of less than sixty (60) days from the date of receipt of such written request from the Issuer.

(iii) In the case of a partial redemption or an advance refunding of any Bonds evidencing a portion of the principal maturing in a particular year, DTC or its successor (or any Substitute Depository or its successor) shall make an appropriate notation on such Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee, all in accordance with the Letter of Representations. The Trustee shall not be liable for such Depository's failure to make such notations or errors in making such notations.

(iv) the Issuer and the Trustee shall be entitled to treat the person in whose name any Bond is registered as the Owner thereof for all purposes of this Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the Issuer; and the Issuer and the Trustee shall not have responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the Bonds. Neither the Issuer nor the Trustee shall have any responsibility or obligation, legal or otherwise, to any such beneficial owners or to any other party, including DTC or its successor (or Substitute Depository or its successor), except to the Owner of any Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the Bonds.

ARTICLE III

PROCEEDS OF BONDS

Section 3.01 Delivery of Bonds. The Trustee is hereby authorized to authenticate and deliver the Bonds to the purchaser thereof upon receipt of a Request of the Issuer and upon receipt of the proceeds of sale thereof.

Section 3.02 Establishment of Funds and Accounts and Deposit and Use of Proceeds of Bonds.

(a) There is hereby established with the Trustee the following funds and accounts for the Bonds: the Issuance Costs Fund, the Rebate Fund, the Reserve Fund, the Construction Fund and the Bond Payment Fund. Within the Bond Payment Fund there is hereby established an Interest Account, a Principal Account and a Redemption Account.

(b) Upon the receipt of payment for the Bonds on the Delivery Date, the Issuer will cause the Trustee to apply the proceeds of sale thereof as follows:

(i) Deposit into the Issuance Costs Fund, \$_____, constituting an amount sufficient to pay Issuance Costs with respect to the Bonds; and

(ii) Deposit into the Construction Fund, \$_____, constituting an amount sufficient to pay the Project Costs.

(c) Issuance Costs shall be paid from amounts on deposit in the Issuance Costs Fund. The Trustee shall make such payments in the amounts, at the times, in the manner, and on the other terms and conditions set forth herein. No such payment shall be made until the Trustee shall have received a Written Requisition of the District or the Issuer. Each such Written Requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. Upon the earlier of the written direction from the Issuer to the effect that all Issuance Costs have been paid or on the six month anniversary of the initial issuance of the Bonds, the Trustee shall transfer any remaining money in the Issuance Costs Fund to the Bond Payment Fund and the Issuance Costs Fund shall thereafter be closed.

(d) The Reserve Surety Policy shall be deposited into the Reserve Fund to satisfy the Reserve Requirement.

Section 3.03 Construction Fund.

(a) The Trustee shall establish and maintain a separate fund designated the "Construction Fund." On the Closing Date there shall be deposited in the Construction Fund the amount specified in Section 3.02(b)(ii) hereof.

(b) The moneys in the Construction Fund shall be used and withdrawn by the Trustee from time to time to pay the Project Costs upon submission of a Written Requisition of the District stating (i) the Person to whom payment is to be made, (ii) the amount to be paid with payment instructions, (iii) the purpose for which the obligation was incurred, (iv) that such payment constitutes a Project Cost and is a proper charge against the Construction Fund, and (v) that such amounts have not been the subject of a prior disbursement from the Construction Fund, in each case together with a statement or invoice for each amount requested thereunder. Each such Written Requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts.

(c) Upon the filing of a Written Request of the District stating that the Project has been completed and that all Project Costs have been paid, the Trustee shall transfer and apply the amount, if any, remaining in the Construction Fund (x) if such amount is equal to or greater than \$50,000, to the Redemption Fund to be used to optionally redeem Bonds, provided that the amount so transferred shall not exceed the amount required to provide for the redemption of all Outstanding Bonds and (y) if such amount is less than \$50,000, to the Bond Payment Fund to be used for the purposes thereof. Notwithstanding the foregoing, unless the Insurer otherwise directs, upon the occurrence and continuance of an Event of Default or an event which with notice or lapse of time would constitute an Event of Default, amounts on deposit in the Construction Fund shall not be disbursed, but shall instead be applied to the payment of debt service or redemption price of the Bonds.

ARTICLE IV

REDEMPTION OF BONDS

Section 4.01 Redemption of Bonds.

(a) Optional Redemption. The Bonds maturing on and after October 1, 20__ are subject to optional redemption, in whole or in part, on any date on and after October 1, 20__, from such maturities as are selected by the District in a written request to the Trustee at least 45 days (or such lesser number of days acceptable to the Trustee in its sole discretion) prior to such date, in integral multiples of \$5,000, from any source of available funds provided to the Authority by or at the discretion of the District, at a Redemption Price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date of redemption, without premium.

(b) Mandatory Sinking Fund Redemption. The Term Bonds maturing on October 1, 20__ shall be paid at maturity and are subject to mandatory sinking fund redemption, in part by lot, from Sinking Account payments as set forth in the following schedule commencing on October 1, 20__ and on each October 1 thereafter until maturity, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the Term Bonds maturing on October 1, 20__ have been redeemed pursuant to the optional redemption or extraordinary redemption provisions of the Indenture, the total amount of Sinking Account payments to be made subsequent to such redemption will be reduced in an amount equal to the principal amount of the Term Bonds maturing on October 1, 20__ so redeemed by reducing each such future Sinking Account payments on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000, as will be designated pursuant to written notice filed by the District with the Trustee:

*Redemption Date
(October 1)*

*Principal
Amount*

*

* Final Maturity.

In lieu of such redemption, the Trustee may apply amounts in the Principal Account to the purchase of Term Bonds at public or private sale for cancellation, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as may be directed by the District, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Term Bonds, as set forth in a Written Request of the District and subsequently cancelled or surrendered to the Trustee for cancellation. The par amount of any Term Bonds so purchased by the District in any twelve-month period immediately preceding any September 15 will be credited towards and will reduce the principal amount of Term Bonds required to be redeemed on the succeeding October 1.

(c) Extraordinary Redemption. The Bonds will be subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity and within maturities as directed by the District in a Written Request of the District provided to the Trustee at least 60 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date

and by lot within each maturity in integral multiples of \$5,000 from Net Proceeds, upon the terms and conditions of, and as provided for in, Sections 6.9 and 6.15 of the Installment Purchase Agreement, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

Section 4.02 Selection of Bonds To Be Redeemed. Whenever provision is made herein for the redemption of less than all of the Bonds, (other than mandatory sinking fund redemption of Term Bonds) the Trustee will select the Bonds to be redeemed from all Bonds or such given portion of the Bonds not previously called for redemption, among maturities as directed by the District, and approved in writing by the Insurer (so long as the Insurer has not defaulted on any obligation under the Policy or the Reserve Surety Policy), and within each maturity in a manner selected by the Trustee. For purposes of such selection, the Trustee will treat each Bond as consisting of separate \$5,000 portions and each such portion will be subject to redemption as if such portion were a separate Bond.

Section 4.03 Notice of Redemption. The District shall notify the Trustee at least forty-five (45) days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee) prior to any optional or extraordinary redemption date for Bonds pursuant to Section 4.01. Notice of redemption shall be mailed by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, (i) to the respective Owners of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee by first-class mail, (ii) to the Securities Depository electronically or by such method as is acceptable to the Securities Depository, and (iii) to the Municipal Securities Rulemaking Board. Notice of redemption shall be given in the form and in accordance with the terms of this Indenture.

Each such notice of redemption will state the date of notice, the redemption date, the place or places of redemption and the Redemption Price, will designate the maturities, CUSIP numbers, if any, and, if less than all of any such maturity is to be redeemed, the serial numbers of the Bonds of such maturity to be redeemed by giving the individual number of each Bond or by stating that all Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal thereof in the case of a Bond to be redeemed in part only, together with interest accrued with respect thereto to the redemption date, and that (provided that moneys for redemption have been deposited with the Trustee) from and after such redemption date interest thereon ceases to accrue, and will require that such Bond be then surrendered to the Trustee. Any failure to receive such notice or any defect in the notice or the mailing will not affect the validity of the redemption of any Bond.

With respect to any notice of optional redemption of Bonds, such notice shall state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such Bonds to be redeemed and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Trustee shall not be required to redeem such Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption shall not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received and that the redemption shall not take place.

Section 4.04 Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Issuer shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the District, a new Bond of Authorized Denominations, and of the same maturity date and interest rate, equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

Section 4.05 Effect of Redemption of Bonds. If notice of redemption having been duly given pursuant to Section 4.03 hereof, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption is held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice together with interest accrued thereon to the date fixed for redemption, interest on the Bonds so called for redemption shall cease to accrue, such Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Owners of such Bonds shall have no rights in respect thereof except to receive payment of the Redemption Price and accrued interest. Any defect as failure to receive notice shall not affect the sufficiency of the proceedings of redemption.

All Bonds redeemed pursuant to the provisions hereof shall be cancelled upon surrender thereof and destroyed.

ARTICLE V

ASSIGNMENT AND APPLICATION OF REVENUES

Section 5.01 Assignment of Revenues. The Issuer, for good and valuable consideration, does hereby unconditionally grant, transfer and assign to the Trustee without recourse all its rights to receive the Revenues and enforce the Installment Purchase Agreement upon an event of default thereunder for the benefit of the Owners of the Bonds, for the purpose of securing: (a) the payment of all sums due and owing to the Owners of the Bonds under the terms of the Indenture; and (b) the observance, performance and discharge of each agreement, condition, covenant and term of the District contained in the Installment Purchase Agreement, and the Trustee hereby accepts such assignment.

All Installment Payments shall be paid directly by the District to the Trustee, and all Installment Payments received by the Trustee shall be held in trust by the Trustee under the terms hereof for the benefit of the District until deposited in the funds provided in Section 5.02, whereupon such money shall be held in trust in such funds by the Trustee for the benefit of the Owners.

Section 5.02 Deposit of Revenues. The Trustee shall deposit all Revenues paid to it into the Bond Payment Fund and shall transfer such funds to the Interest Account, Principal Account, Sinking Account and the Redemption Account in the manner and at the times hereinafter provided. The Bond Payment Fund (and all accounts contained therein) shall be maintained so long as any Bonds are Outstanding. All moneys in the Bond Payment Fund (and the accounts contained therein) shall be disbursed only for the purposes and uses hereinafter authorized; provided, that any money in such fund or accounts not required to pay the principal and interest and redemption premiums, if any, on the Bonds shall on the Business Day immediately following each Interest Payment Date, be transferred first to the Reserve Fund to replenish amounts therein to the Reserve Requirement and/or

to reimburse the Insurer for amounts owed, and second to the Issuer to be used for any lawful purpose of the Issuer.

(a) Interest Account. On or prior to each Interest Payment Date, the Trustee shall transfer to the Interest Account that amount of money representing the portion of the Revenues constituting the interest becoming due and payable on such Interest Payment Date. All money in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds on their respective Interest Payment Dates.

(b) Principal Account. On or prior to each maturity date (commencing on October 1, ____), the Trustee shall transfer to the Principal Account that amount of money representing the portion of the Revenues constituting the principal becoming due and payable on such maturity date. All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal on the Bonds on their respective maturities. Notwithstanding the foregoing, no principal payments shall be made on the Term Bonds from the Principal Account.

(c) Sinking Account. On or prior to each date on which the Term Bonds are subject to mandatory sinking fund redemption, the Trustee shall transfer to the Sinking Account that amount of money representing the portion of the Revenues constituting the principal becoming due and payable on such date. All money in the Sinking Account shall be used and withdrawn by the Trustee solely for the purpose of paying the mandatory sinking fund redemption of the Term Bonds as they become due and payable.

(d) Redemption Account. Any prepayments paid to the Trustee pursuant to the Installment Purchase Agreement shall immediately be transferred to the Redemption Account. All money in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest and principal and redemption premiums, if any, on the Bonds to be redeemed on their respective optional or mandatory redemption dates.

Section 5.03 Rebate Fund.

(a) Establishment. The Trustee shall establish a separate fund designated the “Rebate Fund.” Absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Bonds will not be adversely affected, the Issuer shall cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to this Section and the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund shall be governed by this Section and the Tax Certificate for the Bonds, unless and to the extent that the Issuer delivers to the Trustee an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Bonds will not be adversely affected if such requirements are not satisfied.

(i) Computation. Within 55 days of the end of each Bond Year (as such term is defined in the Tax Certificate), the Issuer shall calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (e.g., the temporary investments exception of Section 148(f)(4)(B) and the construction expenditure exception of

Section 148(f)(4)(C) of the Code or Section 1.148-7(d) of the Treasury Regulations), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the “1½% Penalty”) has been made), for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the “Rebatable Arbitrage”). The Issuer shall obtain expert advice as to the amount of the Rebatable Arbitrage to comply with this Section.

(ii) Transfer. Within 55 days of the end of the fifth Bond Year, upon the written request of the Issuer, an amount shall be deposited to the Rebate Fund by the Trustee from any Revenues legally available for such purpose (as specified by the Issuer in the aforesaid written Request), if and to the extent required so that the balance in the Rebate Fund shall equal the amount of Rebatable Arbitrage so calculated in accordance with (i) of this Subsection (a). In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon written Request of the Issuer, the Trustee shall withdraw the excess from the Rebate Fund and then credit the excess to the Bond Payment Fund.

(iii) Payment to the Treasury. The Trustee shall pay, as directed by Request of the Issuer, to the United States Treasury, out of amounts in the Rebate Fund,

(A) not later than 60 days after the end of (X) the fifth Bond Year, and (Y) each applicable fifth Bond Year thereafter, an amount that, together with all previous rebate payments, is equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year; and

(B) not later than 60 days after the payment of all the Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the date of such payment and any income attributable to the Rebatable Arbitrage determined to be due and payable, computed in accordance with Section 1.148-3 of the Treasury Regulations.

In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the Issuer shall calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to this Subsection (a) shall be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and shall be accompanied by an Internal Revenue Service Form 8038-T prepared by the Issuer, or shall be made in such other manner as provided under the Code.

(b) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after redemption and payment in full of the Bonds and the payments described in Subsection (a)(iii) above being made may be withdrawn by the Issuer upon written direction of the Issuer to the Trustee and utilized in any manner by the Issuer.

(c) Survival of Defeasance. Notwithstanding anything in this Section to the contrary, the obligation to comply with the requirements of this Section shall survive the defeasance or payment in full of the Bonds.

(d) Recordkeeping. The Issuer shall retain records of all determinations made hereunder until six years after the complete retirement of the Bonds.

The Trustee shall not be responsible for calculating rebate amounts or for the adequacy or correctness or any rebate report or rebate calculations. The Trustee shall be deemed conclusively to have complied with the provisions of this Indenture regarding calculation and payment of rebate if it follows the directions of the Issuer and it shall have no independent duty to review or such calculations or enforce compliance with such rebate requirements.

Section 5.04 Reserve Fund. The Trustee shall establish and hold in trust the Reserve Fund. The District shall cause the Reserve Surety Policy to be deposited in the Reserve Fund and the Trustee shall draw upon the Reserve Surety Policy in accordance with this Section 5.04.

As long as the Reserve Surety Policy shall be in full force and effect, and the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy, the Issuer and Trustee agree to comply with the following provisions:

(a) In the event and to the extent that moneys on deposit in the Bond Payment Fund, plus all amounts on deposit in and credited to the Reserve Fund in excess of the amount of the Reserve Surety Policy, are insufficient to pay the amount of principal and interest coming due, then upon the later of: (i) one (1) Business Day after receipt by the Insurer of a Notice of Nonpayment (as such terms are defined in the Reserve Surety Policy), duly executed by the Trustee certifying that payment due under this Indenture has not been made to the Trustee; or (ii) the Interest Payment Date, the Insurer will make a deposit of funds in an account with the Trustee or its successor sufficient for the payment to the Trustee of amounts which are then due to the Trustee under this Indenture up to but not in excess of the Policy Limit, as defined in the Reserve Surety Policy; provided, however, that in the event that the amount on deposit in, or credited to, the Reserve Fund, in addition to the amount available under the Reserve Surety Policy, includes amounts available under a letter of credit, insurance policy, reserve surety policy or other such funding instrument (the "Additional Funding Instrument"), draws on the Reserve Surety Policy and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency.

(b) The Issuer shall repay any draws under the Reserve Surety Policy and pay all related reasonable expenses incurred by the Insurer. Interest shall accrue and be payable on such draws and expenses from the date of payment by the Insurer at the Late Payment Rate. "Late Payment Rate" means the lesser of: (i) the greater of: (A) the per annum rate of interest, publicly announced from time to time by JP Morgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such change is announced by JP Morgan Chase Bank) plus 3%; and (B) the then applicable highest rate of interest on the Bonds; and (ii) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event that JP Morgan Chase Bank ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such national bank as the Insurer shall specify.

(c) Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, "Policy Costs") shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

(d) Amounts in respect of Policy Costs paid to the Insurer shall be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to the Insurer on account of principal due, the coverage under the Reserve Surety Policy will be increased by a like amount, subject to the terms of the Reserve Surety Policy.

(e) All cash and investments in the Reserve Fund shall be transferred to the Bond Payment Fund for payment of the principal of and interest on the Bonds before any drawing may be made on the Reserve Surety Policy or any other credit facility credited to the Reserve Fund in lieu of cash ("Credit Facility"). Payment of any Policy Costs shall be made prior to replenishment of any such cash amounts. Draws on all Credit Facilities (including the Reserve Surety Policy) on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to other Credit Facilities shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Fund. For the avoidance of doubt, "available coverage" means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

(f) If the Issuer or the District shall fail to pay any Policy Costs in accordance with the requirements of Section 5.04(b) hereof, the Insurer shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under this Indenture of Trust other than: (i) acceleration of the maturity of the payments of principal of and interest on the Bonds; or (ii) remedies which would adversely affect Owners of the Bonds.

(g) The Trustee shall ascertain the necessity for a claim upon the Reserve Surety Policy in accordance with the provisions of Section 5.04(a) hereof and provide notice to the Insurer in accordance with the terms of the Reserve Surety Policy at least five (5) Business Days prior to an Interest Payment Date. Where deposits are required to be made by the District with the Trustee to the Bond Payment Fund for the payment of principal of and interest on the Bonds more often than semi-annually, the Trustee shall be instructed to give notice to the Insurer of any failure of the Issuer to make timely payment in full of such deposits within two Business Days of the date due.

So long as the Reserve Surety Policy is in full force and effect and the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy, future deposits of a surety in the Reserve Fund shall require the prior written consent of the Insurer. Notwithstanding anything to the contrary, amounts on deposit in the Reserve Fund shall be applied solely to the payment of debt service on the Bonds.

Section 5.05 Claims Upon the Insurance Policy and Payments by and to the Insurer. If, on the third Business Day prior to the related scheduled interest payment date or principal payment date ("Payment Date") there is not on deposit with the Trustee, after making all transfers and deposits required under this Indenture, moneys sufficient to pay the principal of and interest on the Bonds due on such Payment Date, the Trustee shall give notice to the Insurer and to its designated agent (if any) (the "Insurer's Fiscal Agent") by telephone or email of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Bonds due on such Payment Date, the Trustee shall make a claim under the Insurance Policy and give notice to the Insurer and the Insurer's Fiscal Agent (if any)

by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Bonds and the amount required to pay principal of the Bonds, confirmed in writing to the Insurer and the Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

The Trustee shall designate any portion of payment of principal on the Bonds paid by the Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of the Bonds registered to the then current Owner, whether DTC or its nominee or otherwise, and shall issue a replacement Bond to the Insurer, registered in the name of the Insurer, in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Bond shall have no effect on the amount of principal or interest payable by the District on any Bond or the subrogation rights of the Insurer.

The Trustee shall keep a complete and accurate record of all funds deposited by the Insurer into the Policy Payments Account (defined below) and the allocation of such funds to payment of interest on and principal of any Bond. The Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

Upon payment of a claim under the Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of Owners referred to herein as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Insurance Policy in trust on behalf of Owners and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to Owners in the same manner as principal and interest payments are to be made with respect to the Bonds under the sections hereof regarding payment of the Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay the principal of and interest on the Bonds with other funds available to make such payments. Notwithstanding anything herein to the contrary, the Issuer agrees to pay to the Insurer (i) a sum equal to the total of all amounts paid by the Insurer under the Insurance Policy (the "Insurer Advances"); and (ii) interest on such Insurer Advances from the date paid by the Insurer until payment thereof in full, payable to the Insurer at the Late Payment Rate per annum (collectively, the "Insurer Reimbursement Amounts"). The Issuer hereby covenants and agrees that the Insurer Reimbursement Amounts are secured by a lien on and pledge of the Revenues and payable from such Revenues on a parity with the payments of principal of and interest on the Bonds.

Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. Any funds remaining in the Policy Payments Account following an Interest Payment Date shall promptly be remitted to the Insurer.

Section 5.06 Payments by the Insurer as a Result of Nonpayment. The Insurer shall be entitled to pay principal or interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Insurance Policy) and any amounts due on the Bonds as a result of acceleration of the maturity thereof in accordance with this Indenture, whether or not the Insurer has received a Notice of Nonpayment (as such terms are defined in the Insurance Policy) or a claim upon the Insurance Policy.

ARTICLE VI

COVENANTS

Section 6.01 Compliance With Indenture and Installment Purchase Agreement. The Issuer will not execute and the Trustee will not authenticate or deliver any Bonds in any manner other than in accordance with the provisions hereof; and the Issuer will not suffer or permit any default by it to occur hereunder, but will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and performed by it.

The Issuer will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Agreement required to be observed and performed by the Issuer, and will enforce such agreements against the other party thereto in accordance with their terms.

Section 6.02 Tax Covenants. Notwithstanding any other provision of this Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on Bonds will not be adversely affected for federal income tax purposes, the Issuer covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The Issuer will take no action or refrain from taking any action or make any use of the proceeds of the Bonds or of any other moneys or property which would cause the Bonds to be “private activity bonds” within the meaning of Section 141 of the Code;

(b) Arbitrage. The Issuer will make no use of the proceeds of the Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code;

(c) Federal Guaranty. The Issuer will make no use of the proceeds of the Bonds or take or omit to take any action that would cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

(d) Information Reporting. The Issuer will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code;

(e) Hedge Bonds. The Issuer will make no use of the proceeds of the Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause either the Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the Issuer takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the Bonds for federal income tax purposes; and

(f) Miscellaneous. The Issuer will take no action or refrain from taking any action inconsistent with its expectations stated in that certain Tax Certificate executed by the Issuer in connection with each issuance of Bonds and will comply with the covenants and requirements stated therein and incorporated by reference herein.

Section 6.03 Prosecution and Defense of Suits. The Issuer will defend against every action, suit or other proceeding at any time brought against the Trustee, the Issuer or any Owner upon any claim arising out of the receipt, deposit or disbursement of any of the Installment Payments or involving any rights or obligations of the Trustee, the Issuer or any Owner hereunder; provided, that the Trustee, the Issuer or any Owner at its, his or her election may appear in and defend any such action, suit or other proceeding. The Issuer will indemnify and hold harmless the Trustee and the Owners against any and all liability claimed or asserted by any person arising out of any such receipt, deposit or disbursement, and will indemnify and hold harmless the Owners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation or otherwise in connection with the foregoing to which any of them may become a party in order to enforce their rights hereunder or under the Bonds; provided that such litigation shall be concluded favorably to such Owners' contentions therein.

Section 6.04 Accounting Records and Statements. The Trustee shall keep proper books of record and account in accordance with corporate trust industry standards in which complete and correct entries shall be made of all transactions made by the Trustee relating to the receipt, investment, disbursement, allocation and application of the Revenues and the proceeds of the Bonds. Such records shall be open to inspection by the Issuer and by any Owner at any reasonable time during regular business hours on reasonable notice. Not later than the fifteenth (15th) day of each month, commencing on the first calendar month after the initial issuance of the Bonds, and continuing so long as any Bonds are Outstanding, the Trustee will furnish to the Issuer and to the District a complete statement covering the receipts, deposits and disbursements of the funds held by the Trustee hereunder for the preceding month; provided that the Trustee shall not be obligated to provide an accounting for any fund or account that: (a) has a balance of \$0.00; and (b) has not had any activity since the last reporting date.

Section 6.05 Further Assurances. Whenever and so often as requested to do so by the Trustee or any Owner, the Issuer will promptly execute and deliver, or cause to be executed and delivered, all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners the benefit, protection and security conferred, or intended to be conferred, upon them hereby.

ARTICLE VII

DEFAULT AND LIMITATIONS OF LIABILITY

Section 7.01 Events of Default. The following events shall be Events of Default hereunder:

(a) Default by the Issuer in the due and punctual payment of the principal of any Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

(b) Default by the Issuer in the due and punctual payment of any installment of interest on any Bonds when and as the same shall become due and payable.

(c) Default by the Issuer in the observance of any of the other covenants, agreements or conditions on its part in this Indenture or in the Bonds contained, if such default shall

have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Issuer by the Trustee or by the Owners of a majority in aggregate principal amount of Bonds Outstanding; provided, however, that if in the reasonable opinion of the Issuer the default stated in the notice can be corrected, but not within such thirty (30) day period and corrective action is instituted by the Issuer, within such thirty (30) day period and diligently pursued in good faith until the default is corrected such failure shall not become an Event of Default; provided, however, if such default shall have been continued for ninety (90) days without being cured then such default shall become an Event of Default unless the Insurer (so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy) shall have consented to extend the time for such corrective action.

(d) The Issuer shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Issuer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Issuer or of the whole or any substantial part of its property.

(e) A default by the Issuer under the Installment Purchase Agreement.

Section 7.02 Remedies Upon Event of Default. If any Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, with the written consent of the Insurer (so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy), which consent shall be at the sole discretion of the Insurer, upon written notice to the Issuer, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Bonds contained to the contrary notwithstanding.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Issuer shall deposit with the Trustee a sum sufficient to pay all the principal of and interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds to the extent permitted by law, and the reasonable charges and expenses of the Trustee, and any and all other Events of Default 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) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case the Trustee shall, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment shall extend to or shall affect any subsequent Event of Default, or shall impair or exhaust any right or power consequent thereon.

Section 7.03 Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of this Indenture shall be applied by the Trustee as follows and in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under this Indenture;

(b) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of this Indenture, in the following order of priority:

First: To the payment to the persons entitled thereto of all interest then due in the order of the due date of such interest, and, if the amount available shall not be sufficient to pay in full any interest due on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate of two hundred (200) basis points above the interest rate per annum on such overdue principal, and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

After payment of reasonable expenses of the Trustee, the application of funds realized upon default shall be applied to the payment of expenses of the Issuer or rebate only after the payment of past due and current debt service on the Bonds, any other amounts due and owing the Insurer hereunder or under the Installment Purchase Agreement and amounts required to restore the Reserve Fund to the Reserve Requirement.

Section 7.04 Trustee to Represent Bond Owners. The Trustee is hereby irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds or this Indenture and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee in its discretion may, and, subject to Section 7.11 hereof, upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Bonds or this Indenture or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under this Indenture, pending such proceedings. All rights of action under this Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding

instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of this Indenture.

Notwithstanding anything contained herein, the Trustee shall have no security interest in or mortgage on the Project, any property of the District or other assets or property thereof and no default hereunder shall result in the loss of the Project, any property of the District or other assets or property thereof.

Section 7.05 Bond Owners' Direction of Proceedings. Subject to Section 7.11 hereof, anything in this Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conduct in all remedial proceedings taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law and the provisions of this Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bond Owners not parties to such direction.

Section 7.06 Limitation on Bond Owners' Right to Sue. No Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under this Indenture, the Installment Purchase Agreement or any other applicable law with respect to such Bonds, unless: (a) such Owners shall have 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 the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have failed to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; (e) no direction inconsistent with such written request shall have been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding; and (f) such suit, action or proceeding is instituted subject to this Indenture.

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 Bonds of any remedy hereunder or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, this Indenture, the Installment Purchase Agreement or other applicable law with respect to the Bonds, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner herein provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of this Indenture.

Section 7.07 Absolute Obligation of Issuer. Nothing in Section 7.06 or in any other provision of this Indenture or in the Bonds contained shall affect or impair the obligation of the Issuer, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as

herein provided, but only out of the Revenues and other assets herein pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Section 7.08 Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bond Owners, then in every such case the Issuer, the Trustee and the Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the Issuer, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

Section 7.09 Right of Mandamus; Remedies Not Exclusive. Following an Event of Default, subject to Section 7.11 hereof, the Owners may, by mandamus or other suit or proceeding of law or in equity enforce any and all rights of the Owners hereunder. No remedy herein conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

Section 7.10 No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein; provided, however, that every power and remedy given by this Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Section 7.11 Insurer Rights. The Insurer (so long as the Insurer has not defaulted on any obligation under the Policy or the Reserve Surety Policy) shall be deemed to be the sole holder of the Bonds insured under the Insurance Policy for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Bonds insured by it are entitled to take pursuant to the Indenture pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee. In each case in which notice or other communication to the Insurer refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the attention of the General Counsel and shall be marked to indicate "URGENT MATERIAL ENCLOSED."

ARTICLE VIII

THE TRUSTEE

Section 8.01 Employment and Duties of the Trustee. The Issuer hereby appoints and employs the Trustee to receive, deposit and disburse the Revenues as provided herein, to prepare, authenticate, deliver, transfer, exchange and cancel the Bonds as provided herein, to pay the interest and principal and redemption premiums, if any, on the Bonds to the Owners thereof as provided herein, and to perform the other obligations contained herein; all in the manner provided herein and subject to the conditions and terms hereof. By executing and delivering the Indenture, the Trustee undertakes to perform such obligations (and only such obligations) as are specifically set forth herein, and no implied obligations shall be read herein against the Trustee.

Section 8.02 Removal and Resignation of the Trustee. The Issuer may at any time, as long as an Event of Default, or an event which with notice or passage of time or both would become an Event of Default, has not occurred and is continuing, and shall, after any breach by the Trustee hereunder, remove the Trustee initially a party hereto and any successor thereto by giving written notice of such removal to the Trustee, and by giving notice by mail in accordance with Section 11.06 of such removal to all Owners of Bonds, and the Trustee initially a party hereto and any successor thereto may at any time resign by giving written notice of such resignation to the Issuer and the District and by giving notice by mail in accordance with Section 11.06 of such resignation to all Owners of Bonds. Upon giving any such notice of removal or upon receiving any such notice of resignation, the Issuer shall promptly appoint a successor Trustee by an instrument in writing; provided, that in the event the Issuer and the District do not appoint a successor Trustee within sixty (60) days following the giving of any such notice of removal or the receipt of any such notice of resignation, the removed or resigning Trustee may petition any appropriate court having jurisdiction to appoint a successor Trustee. No removal, resignation or termination of the Trustee shall take effect until a successor trustee shall be appointed. Any successor Trustee shall be a bank, national banking association with trust powers or trust company doing business and having a principal corporate trust office in the United States of America, having (or if such bank, national banking association or trust company is a member of a bank holding company system, its bank holding company has) a combined capital, (exclusive of borrowed capital) and surplus of at least seventy-five million dollars (\$75,000,000), unless the District consents to a lesser amount therefor, and shall be subject to supervision or examination by state or national authorities. If such bank, national banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this section the combined capital and surplus of such bank, national banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Any removal or resignation of a Trustee and appointment of a successor Trustee shall become effective only upon the acceptance of the appointment by the successor Trustee.

Section 8.03 Compensation and Indemnification of the Trustee. The Issuer shall from time to time, subject to any agreement then in effect with the Trustee, pay the Trustee reasonable compensation for its services and reimburse the Trustee for all its reasonable advances and expenditures hereunder, including, but not limited to, advances to and the reasonable fees and expenses of accountants, agents, appraisers, consultants, counsel or other experts employed by it in the observance and performance of its rights and obligations hereunder; provided, except as otherwise provided in Section 7.04 hereof, that the Trustee shall not have any lien for such compensation or reimbursement against any money held by it in any of the funds established hereunder, although the Trustee may take whatever legal actions are available to it directly against the Issuer to recover such compensation or reimbursement. To the extent permitted by law, the Issuer does hereby assume liability for, and agree to defend, indemnify, protect, save and keep harmless, the Trustee and its directors, officers and employees and its successors and assigns from and against any and all liabilities, obligations, losses, damages (including consequential damages incurred by others), taxes and impositions, penalties, fines, claims, actions, suits, costs and expenses and disbursements (including legal fees and expenses) of whatsoever kind and nature imposed in, asserted against or incurred or suffered by the Trustee or its directors, officers or employees or its successors and assigns in any way relating to or arising out of (i) the condition, management, maintenance or use of or from any work done in connection with the Water System by the District including, the use, storage, preserve, disposal or release of any Hazardous Substances in or about the Water System, (ii) any act of negligence of the District or of any of its agents, contractors, directors,

employees, invitees, licensees or officers in connection with the Water System, (iii) the authorization of the payment to any costs or expenses of the acquisition and construction of the Project, or (iv) the exercise of any rights or obligations of the Trustee hereunder; provided, that no indemnification will be made for willful misconduct or negligence hereunder by the Trustee.

The Trustee's rights to immunities and protection from liability hereunder and its rights to payment of its fees and expenses shall survive its resignation or removal and the final payment or defeasance of the Bonds.

Section 8.04 Protection of the Trustee. The Trustee shall be protected and indemnified as stated herein by the Issuer and shall incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, notice, request, requisition, resolution, statement, telegram, electronic mail, facsimile, voucher, waiver or other paper or document which it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions hereof, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee may consult with counsel, who may be counsel to the District, before being required to take any action under this Indenture with regard to legal questions arising hereunder, and the opinion of such counsel shall be full and complete authorization and protection in respect to any action taken or suffered by it hereunder in good faith in accordance therewith.

The Trustee shall not be responsible for the sufficiency of the Installment Purchase Agreement or of the assignment made to it herein of all rights to receive the Revenues under the Installment Purchase Agreement, or of the title or value of the Project, and shall not be deemed to have knowledge of any Event of Default unless and until it shall have actual knowledge thereof or have received written notice thereof at its corporate trust office in Los Angeles, California. All recitals, warranties or representations contained therein are statements of the District, and the Trustee assumes no responsibility for their correctness, and the Trustee shall not be accountable for the use or application by the District, or any other party, of any funds which the Trustee properly releases to the District or which the District may otherwise receive from time to time. The Trustee makes no representation concerning, and has no responsibility for, the validity, genuineness, sufficiency, or performance by parties other than the Trustee of the Indenture, any Bond, or of any other paper or document, or for taking any action on them (except as specifically and expressly stated for the Trustee in the Indenture), or with respect to any obligation of the Issuer or the District hereunder or for the sufficiency of any insurance on the Water System.

Whenever in the observance or performance of its rights and obligations hereunder or under the Bonds, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, the Trustee may request a Certificate of the District and 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, and such certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions hereof upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owner may be entitled to take with like effect as it were not a party hereto. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction

with the Issuer or the District, and may act as agent, depository or trustee for any committee or body of Owners or of owners of obligations of the Issuer or the District as freely as if it were not the Trustee hereunder. The Trustee shall not be answerable for the exercise of any of its rights hereunder or for the performance of any of its obligations hereunder or for anything whatsoever in connection with the funds established hereunder, except only for its own willful misconduct or negligence.

No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that the repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture. 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 the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

The Trustee shall not be responsible for monitoring the compliance of the District and the Issuer with the covenants as set forth in Sections 5.03 and 6.02 hereof and Section 6.5 of the Installment Purchase Agreement and may conclusively rely on all written instructions and calculations of the District and the Issuer with respect thereto; provided, the Trustee shall promptly comply with all such written instructions as provided in Sections 5.03 and 6.02.

The Issuer shall not be deemed to be an agent of the Trustee and the Trustee shall not be liable for the acts or omissions of the Issuer in connection with the transactions contemplated hereby and by the Installment Purchase Agreement.

The Trustee shall have no responsibility 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.

Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee shall deem 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, and such Certificate 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, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

The Trustee agrees to accept and act upon instructions or directions pursuant to this Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Trustee 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 Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed

controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee'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 Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

The Trustee 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 Trustee and could not have been avoided by exercising due care. Force majeure shall include, but not be limited to, acts of God, terrorism, war, riots, strikes, fire, floods, earthquakes, epidemics or other similar occurrences.

The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty and it shall not be answerable for other than its negligence or willful misconduct.

The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Owners pursuant to the provisions of this Indenture unless such Owners shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, shall be the successor to the Trustee without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

Section 8.05 Notice to Insurer by Trustee. The Trustee shall notify the Insurer of any failure of the Issuer to provide notices, certificates and other information under the transaction documents of which the Trustee has actual or deemed knowledge.

ARTICLE IX

AMENDMENT OF OR SUPPLEMENT TO THE INDENTURE

Section 9.01 Amendment or Supplement by Consent of Owners. The Indenture and the rights and obligations of the Issuer, the District, Owners and the Trustee hereunder may be amended or supplemented at any time by an amendment hereof or supplement hereto which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in Section 9.02, are filed with the Trustee. So long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy, the consent of the Insurer shall be required for any amendment or supplement. No such amendment or supplement shall: (1) reduce the rate of interest on any Bond or extend the time of payment thereof or reduce the amount of principal or redemption premium, if any, of any Bond or extend the maturity thereof or otherwise alter or impair the obligation of the Issuer to pay the interest and principal and redemption premium, if any, thereon at the time and place and at the rate and in the currency and from the funds provided therein without the prior written consent of the Owner of the Bond so affected; or (2) modify any of the rights or obligations of the Trustee without its prior written consent thereto.

The Indenture and the rights and obligations of the Issuer, the District, the Owners and the Trustee hereunder may also be amended or supplemented at any time by an amendment hereof or supplement hereto which shall become binding upon execution without the written consents of any Owners, but only to the extent permitted by law and after receipt of an approving Opinion of Special Counsel and only if, in the opinion of the Trustee (which opinion may be based upon an Opinion of Special Counsel or a Certificate of the District), such amendment or supplement is not materially adverse to the interests of the Owners, including, but not limited to, amendments or supplements and, only if in the case of any amendment that adversely affects the rights and interests of the Insurer, with the written consent of the Insurer which shall be requested only if the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy:

(a) to add to the agreements, conditions, covenants and terms contained herein required to be observed or performed by the Issuer or the District other agreements, conditions, covenants and terms thereafter to be observed or performed by the Issuer or the District, or to surrender any right reserved herein to or conferred herein on the Issuer or the District, and which in either case shall not adversely affect the interests of the Owners;

(b) to modify, amend or supplement this Indenture in such manner as to preserve the exemption of the Bonds from the registration requirements of the Securities Act of 1933 or any similar federal statute hereafter in effect or to permit the qualification of this Indenture under the Trust Indenture Act of 1939 or any similar federal statute hereinafter in effect;

(c) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained herein or in regard to questions arising hereunder which the Issuer or the District may deem desirable or necessary, and which shall not adversely affect the interests of the Owners; and

(d) to make any modifications or changes necessary or appropriate in the Opinion of Special Counsel to preserve or protect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

The Issuer shall give written notice of any amendment to the Indenture and the rights and obligations of the Issuer and the District and the Owners, the Trustee and the Insurer hereunder to Fitch and S&P not less than fifteen (15) days prior to the execution thereof.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modification thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and shall be fully protected in relying upon, an opinion of counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture and complies with the terms hereof. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Section 9.02 Disqualified Bonds. Bonds known to the Trustee to be held for the account of the Issuer or the District (but excluding Bonds held in any pension or retirement fund of the Issuer or the District) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided herein, and shall not be entitled to consent to or take any other action provided herein, and the Trustee may adopt appropriate regulations to require each Owner, before his or her consent provided for herein shall be deemed effective, to reveal if the Bonds

as to which such consent is given are disqualified as provided in this Section. Upon request of the Trustee, the Issuer shall specify in a Certificate of the Issuer those Bonds disqualified pursuant to this Section 9.02 and the Trustee may conclusively rely on such Certificate.

Section 9.03 Endorsement or Replacement of Bonds After Amendment or Supplement. After the effective date of any action taken as hereinabove provided, the Trustee may determine that the Bonds may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case, upon demand of the Owner of any Outstanding Bond and presentation of the Bond for such purpose at the corporate trust office of the Trustee in Los Angeles, California, a suitable notation as to such action shall be made on such Bond. If the Trustee shall so determine, new Bonds so modified as in the opinion of the Trustee shall be necessary to conform to such action shall be prepared, and in that case upon demand of the Owner of any Outstanding Bonds such new Bonds shall be exchanged without cost to each Owner for Bonds then Outstanding at the corporate trust office of the Trustee in Los Angeles, California, upon surrender of such Outstanding Bonds. All Bonds surrendered to the Trustee pursuant to the provisions of this Section shall be canceled by the Trustee and shall not be redelivered.

Section 9.04 Amendment or Supplement by Mutual Consent. The provisions of this article shall not prevent any Owner from accepting any amendment or supplement as to the particular Bonds owned by him or her; provided, that due notation thereof is made on such Bonds.

Section 9.05 Effect of Insurance Policy. In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under the Indenture would adversely affect the security for the Bonds or the rights of the Owners, the Trustee shall consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Insurance Policy.

ARTICLE X

DEFEASANCE

Section 10.01 Discharge of Bonds and Indenture.

(a) If the Trustee shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Bonds the interest and principal and redemption premiums, if any, evidenced and represented thereby at the times and in the manner provided herein and therein, then all agreements and covenants of the Issuer and the District to such Owners hereunder shall thereupon cease, terminate and become void and shall be completely discharged and satisfied.

(b) Any Outstanding Bonds shall on their maturities or their mandatory redemption dates prior thereto be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this Section if there shall be on deposit with the Trustee money held in trust for the benefit of the Owners of such Bonds which is sufficient to pay the interest and principal and redemption premiums, if any, on such Bonds payable on and prior to their maturities or their mandatory redemption dates thereto.

(c) Any Outstanding Bonds shall prior to their maturities or their mandatory redemption dates prior thereto be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this Section if: (1) in case any of such Bonds are to be redeemed on

any date prior to their maturities, the Issuer shall have given to the Trustee in form satisfactory to it irrevocable instructions to give notice by mail in accordance with Section 11.06 to the Owners of such Bonds of the redemption of such Bonds on such mandatory redemption dates; (2) there shall have been deposited with the Trustee Defeasance Securities, the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee at the same time, shall be sufficient (as evidenced by a report of an Independent Certified Public Accountant regarding such sufficiency) to pay when due the interest on such Bonds on and prior to the earlier of their maturities or their mandatory redemption dates, as the case may be, and the principal and redemption premiums, if any, on such Bonds; and (3) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Issuer shall have given the Trustee in form satisfactory to it irrevocable instructions to give notice by mail in accordance with Section 11.06 to the Owners of such Bonds that the deposit required by clause (2) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this Section and stating their maturities or their mandatory redemption dates prior thereto upon which money is to be available for the payment of the interest and principal and redemption premiums, if any, on such Bonds.

To accomplish defeasance, the Issuer shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Insurer (the "Accountant") verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity or redemption date (the "Verification"); (ii) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the Insurer); (iii) an opinion of nationally recognized bond counsel to the effect that the Bonds are no longer "Outstanding" under this Indenture; and (iv) a certificate of discharge of the Trustee with respect to the Bonds. Each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Issuer, Trustee and Insurer. The Insurer shall be provided with final drafts of the above-reference documentation not less than five business days prior to the funding of the escrow.

Bonds shall be deemed "Outstanding" under this Indenture unless and until they are in fact paid and retired or the above criteria are met.

(d) The Trustee shall, if so directed by the Issuer pursuant to a Request of the Issuer: (i) prior to the maturity date of Bonds deemed to have been paid in accordance with this Section 10.01 which are not to be redeemed prior to their maturity date; or (ii) prior to the mailing of the notice of redemption referred to in clause (c) above with respect to any Bonds deemed to have been paid in accordance with this Section 10.01 which are to be redeemed on any date prior to their maturity, apply moneys deposited with the Trustee with respect to such Bonds and redeem or sell Defeasance Securities so deposited with the Trustee and apply the proceeds thereof to the purchase of such Bonds and the Trustee shall immediately thereafter cancel all such Bonds so purchased; provided, however, that the Defeasance Securities remaining on deposit with the Trustee after the purchase and cancellation of such Bonds shall be sufficient to pay when due the interest on those Bonds on and prior to their maturities or their mandatory redemption dates prior thereto, as the case may be, and the principal and redemption premiums, if any, on such Bonds, with respect to which such Defeasance Securities are being held by the Trustee on or prior to the Redemption Date or maturity date thereof; as the case may be. If, at any time: (i) prior to the maturity date of Bonds deemed to have been paid in accordance with this Section 10.01 which are not to be redeemed prior to their maturity date; or (ii) prior to the mailing of the notice of redemption referred to in clause (c) with respect to any Bonds deemed to have been paid in accordance with this Section 10.01 which are to be redeemed on any date prior to their maturity, the Issuer shall purchase or otherwise acquire any

such Bonds and deliver such Bonds to the Trustee prior to their maturity date or Redemption Date, as the case may be, the Trustee shall immediately cancel all such Bonds so delivered; such delivery of Bonds to the Trustee shall be accompanied by directions from the Issuer to the Trustee in the form of a Request of the Issuer as to the manner in which such Bonds are to be applied against the obligation of the Trustee to pay or redeem Bonds deemed paid in accordance with this Section 10.01. The directions given by the Issuer to the Trustee referred to in the preceding sentences shall also specify the portion, if any, of such Bonds so purchased or delivered and canceled to be applied against the obligation of the Trustee to pay Bonds deemed paid in accordance with this Section 10.01 upon their maturity date or dates and the portion, if any, of such Bonds so purchased or delivered and canceled to be applied against the obligation of the Trustee to redeem Bonds deemed paid in accordance with this Section 10.01 on any date or dates prior to their maturity.

In the event that on any date as a result of any purchases, acquisitions and cancellations of Bonds as provided in this Section 10.01 the total amount of Defeasance Securities remaining on deposit with the Trustee under this Section 10.01 is in excess of the total amount which would have been required to be deposited with the Trustee on such date with respect to the remaining Bonds in order to satisfy subclause (2) of subsection (c) of this Section 10.01, the Trustee shall, if requested by the District pursuant to a request of the District, pay the amount of such excess to the District free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under this Indenture; provided, however, before any such excess is transferred to the District, the District and the Trustee shall have received a report of an Independent Certified Public Accountant to the effect that the amount of moneys and the principal of and interest when due on the Defeasance Securities remaining on deposit with the Trustee after such amount is transferred to the District shall be sufficient to pay when due the interest on such Bonds on and prior to their maturities or their mandatory redemption dates prior thereto, as the case may be, and the principal and redemption premiums, if any, of such Bonds.

Except as otherwise provided in this subsection (d) of this Section 10.01, neither Defeasance Securities deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or redemption price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to the District as received by the Trustee, free and clear of any trust, lien or pledge securing said Bonds or otherwise existing under the Indenture, and (B) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the interest on the Bonds on and prior to their maturities or their mandatory redemption dates prior thereto, as the case may be, and the principal and redemption premiums, if any, on the Bonds and interest earned from such reinvestment shall be paid over to the District, as received by the Trustee, free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under the Indenture.

(e) After the payment of all interest and principal and redemption premiums, if any, of all Outstanding Bonds as provided in subsections (a) or (b) of this Section, and the payment of all fees and expenses of the Trustee, upon receipt of a Request of the District, the Trustee shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the Issuer and the District and shall authenticate and deliver to the Issuer and the District all such instruments as may be necessary or desirable to evidence such total discharge and

satisfaction of the Indenture, and the Trustee shall pay over or deliver to the District all money or investments held by it pursuant hereto which are not required for the payment of the interest and principal and redemption premiums, if any, evidenced and represented by such Bonds, which money and investments shall be used by the District for any lawful purpose.

This Indenture shall not be discharged until all Policy Costs, Insurer Reimbursement Amounts and other amounts owing to the Insurer with respect to the Reserve Surety Policy or the Insurance Policy shall have been paid in full. The Issuer's obligation to pay such amounts shall expressly survive payment in full of the payments of principal of and interest on the Bonds.

Section 10.02 Unclaimed Money. Anything contained herein to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or principal or redemption premium, if any, on any Bonds which remains unclaimed for two (2) years after the date when the payments on such Bonds have become payable, if such money was held by the Trustee on such date, or for two (2) years after the date of deposit of such money if deposited with the Trustee after the date when the interest and principal and redemption premiums, if any, on such Bonds have become payable, shall be repaid by the Trustee to the Issuer 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 Issuer for the payment of the interest and principal and redemption premiums, if any, on such Bonds; provided, that before being required to make any such payment to the Issuer, the Trustee shall, at the expense of the Issuer, give notice by mail in accordance with Section 11.06 to Owners of Bonds with respect to which moneys remain unclaimed that such money remains unclaimed and that after a date named in such notice, which date shall not be less than sixty (60) days after the date of giving such notice, the balance of such money then unclaimed will be returned to the Issuer.

ARTICLE XI

MISCELLANEOUS

Section 11.01 Benefits of the Indenture Limited to Parties. Nothing contained herein, expressed or implied, is intended to confer upon, or to give or grant to, any person or entity other than the Issuer, the District, the Trustee, the Insurer and the Owners any claim, remedy or right under or pursuant hereto, and any agreement, condition, covenant or term contained herein required to be observed or performed by or on behalf of the Issuer or the District shall be for the sole, exclusive benefit of the Trustee and the Owners.

Section 11.02 Successor Deemed Included in All References to Predecessor. Whenever either the Issuer, the District or the Trustee or any officer, director or employee thereof is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Issuer, the District or the Trustee or such officer, director or employee, and all agreements, conditions, covenants and terms contained herein required to be observed or performed by or on behalf of the Issuer, the District or the Trustee or any officer, director or employee thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Section 11.03 Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required herein to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys

appointed in writing. The fact and date of the execution by any Owner or such Owner's attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he or she purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him or her the execution thereof; or by an affidavit of a witness to such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

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

Section 11.04 Waiver of Personal Liability. No officer, director or employee of the District, the Issuer or the Trustee shall be individually or personally liable for the payment of the interest or principal or redemption premiums, if any, on the Bonds, but nothing contained herein shall relieve any officer, director or employee of the Issuer, the District or the Trustee from the performance of any official duty provided by any applicable provisions of law or by the Installment Purchase Agreement or hereby.

Section 11.05 Content of Certificates. Every certificate with respect to compliance with any agreement, condition, covenant or term contained herein shall include: (a) a statement that the person or persons executing such certificate have read such agreement, condition, covenant or term and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements contained in such certificate are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such agreement, condition, covenant or term has been complied with; and (d) a statement as to whether, in the opinion of the signers, such agreement, condition, covenant or term has been complied with.

Any certificate may be based, insofar as it relates to legal matters, upon an Opinion of Special Counsel unless the person or persons executing such certificate know that the Opinion of Special Counsel with respect to the matters upon which his, her or their certificate may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous. Any Opinion of Special Counsel may be based, insofar as it relates to factual matters or information with respect to which is in the possession of the District, upon a representation by an officer or officers of the District unless the counsel executing such Opinion of Special Counsel knows that the representation with respect to the matters upon which his or her opinion may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous.

Section 11.06 Notice by Mail. Any notice required to be given hereunder by mail to any Owners of Bonds shall be given by mailing a copy of such notice, first class postage redeemed, to the Owners of such Bonds at their addresses appearing in the books required to be kept by the Trustee pursuant to the provisions of Section 2.08 not less than fifteen (15) days nor more than thirty (30) days following the action or prior to the event concerning which notice thereof is required to be given; provided, that receipt of any such notice shall not be a condition precedent to the effect of such notice and neither failure to receive any such notice nor any immaterial defect contained therein

shall affect the validity of the proceedings taken in connection with the action or the event concerning which such notice was given.

Section 11.07 Funds. Any fund required to be established and maintained herein by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purpose of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such funds shall at all times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Bonds and the rights of the Owners. In addition to the funds and accounts required to be established hereunder, the Trustee may establish such other funds and accounts as it deems necessary or appropriate to perform its obligations.

Section 11.08 Deposits and Investments.

(a) Any money held by the Trustee in any of the funds provided herein shall be invested in one or more Permitted Investments in accordance with a Written Request of the Issuer or the District. In the absence of a Written Request of the Issuer or the District funds shall be held uninvested. Any such money shall be invested by the Trustee as directed by the Issuer or the District pursuant to a Written Request of the Issuer or the District in Permitted Investments which will, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement hereunder.

(b) The Trustee may act as principal or agent in the acquisition or disposition of any such deposit or investment and may, for the purpose of any such deposit or investment, commingle any of the money held by them hereunder, and the Trustee shall not be liable or responsible for any loss suffered in connection with any such deposit or investment made by them under the terms of and in accordance with this Section. The Trustee may present for redemption or sell any such deposit or investment whenever it shall be necessary in order to provide money to meet any payment of the money so deposited or invested, and the Trustee shall not be liable or responsible for any losses resulting from any such deposit or investment presented for redemption or sold. Any Permitted Investments that are registrable securities shall be registered in the name of the Trustee. The Trustee is hereby authorized, in making or disposing of any investment permitted by this Section, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or dealing as principal for its own account.

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

(c) Subject to Section 5.03 and subsection (d) of this Section, any interest or profits on such deposits and investments received by the Trustee shall be retained in the fund or account to which they relate and on or before April 1 and October 1 of each year shall be transferred first, if the Issuer so directs, to the Rebate Fund, and second, shall be transferred to the Interest Account of the Bond Payment Fund.

(d) Trustee shall deposit earnings on investments in the Bond Payment Fund to the Interest Account, Principal Account or Redemption Account of the Bond Payment Fund, to the extent money is needed therein to make the interest or principal payment or redemption premiums, if any, as the case may be, on such Interest Payment Date, maturity date, or Redemption Date.

Section 11.09 Article and Section Headings, Gender and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to “Articles,” “Sections” and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and the words “hereby,” “hereof” “hereto,” “herewith,” “hereunder” and other words of similar import refer to the Indenture as a whole and not to any particular article, section, subdivision or clause thereof.

Section 11.10 Partial Invalidity. If any one or more of the agreements, conditions, covenants or terms contained herein required to be observed or performed by or on the part of the Issuer or the Trustee shall be contrary to law, then such agreement or agreements, such condition or conditions, such covenant or covenants or such term or terms shall be null and void and shall be deemed separable from the remaining agreements, conditions, covenants and terms hereof and shall in no way affect the validity hereof or of the Bonds, and the Owners shall retain all the benefit, protection and security afforded to them hereunder and under all provisions of applicable law. The Trustee and the Issuer hereby declare that they would have executed and entered into the Indenture and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof and would have authorized the execution and delivery of the Bonds pursuant hereto irrespective of the fact that any one or more of the articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 11.11 California Law. THE INDENTURE SHALL BE CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

Section 11.12 Insurer as Third Party Beneficiary. The Insurer is intended as a third party beneficiary to this Indenture.

Section 11.13 No Impairment of Insurer’s Rights. No contract shall be entered into or any action taken by which the rights of the Insurer or security for or sources of payment of the Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Insurer.

Section 11.14 Insurer Consideration. The rights granted to the Insurer under this Indenture or any supplement thereto or amendment thereof to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer’s contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Owners and such action does not evidence any position of the Insurer, affirmative or negative, as to whether the consent of the Owners or any other person is required in addition to the consent of the Insurer.

Section 11.15 Amounts Paid by Insurer. Amounts paid by the Insurer under the Insurance Policy shall not be deemed paid for purposes of this Indenture and the Bonds relating to such

payments shall remain Outstanding and continue to be due and owing until paid by the Issuer in accordance with this Indenture. This Indenture shall not be discharged unless all amounts due or to become due to the Insurer have been paid in full or duly provided for.

Section 11.16 Covenant to Preserve Priority. Each of the Issuer and Trustee covenant and agree to take such action (including, as applicable, filing of Uniform Commercial Code financing statements and continuations thereof) as is necessary from time to time to preserve the priority of the pledge of the Revenues set forth in Section 5.01 under applicable law.

Section 11.17 Subrogation and Survival of Obligations. The Insurer shall, to the extent it makes any payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy. Each obligation of the Issuer to the Insurer under this Indenture or any supplement thereto or amendment thereof shall survive discharge or termination of this Indenture or any supplement thereto or amendment thereof.

Section 11.18 Reimbursement of Fees. The Issuer shall pay or reimburse the Insurer any and all charges, fees, costs and expenses that the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in this Indenture and the Installment Purchase Agreement, or any supplement or amendment hereto or thereto; (ii) the pursuit of any remedies under this Indenture or the Installment Purchase Agreement, or any supplement or amendment hereto or thereto or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, this Indenture or the Installment Purchase Agreement, or any supplement or amendment hereto or thereto whether or not executed or completed, or (iv) any litigation or other dispute in connection with this Indenture or the Installment Purchase Agreement, or any supplement or amendment hereto or thereto or the transactions contemplated thereby, other than costs resulting from the failure of the Insurer to honor its obligations under the Insurance Policy or the Reserve Surety Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of this Indenture or the Installment Purchase Agreement, or any supplement or amendment hereto or thereto.

Section 11.19 Provision of Information. So long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy, the Insurer shall be provided with the following information by the Issuer or Trustee, with respect to items (a) through (d), as the case may be:

(a) Notice of any draw upon the Reserve Fund within two Business Days after knowledge thereof other than (i) withdrawals of amounts in excess of the Reserve Requirement and (ii) withdrawals in connection with a refunding of the Bonds;

(b) Notice of any default known to the Trustee or the Issuer within five Business Days after knowledge thereof;

(c) Prior notice of the advance refunding or redemption of any of the Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(d) Notice of the resignation or removal of the Trustee and the appointment of, and acceptance of duties by, any successor thereto;

(e) Notice of the commencement of any proceeding by or against the Issuer commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an “Insolvency Proceeding”);

(f) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the Bonds;

(g) A full original transcript of all proceedings relating to the execution of any amendment, supplement, or waiver to this Indenture or any supplement thereto or amendment thereof; and

(h) All reports, notices and correspondence to be delivered to Owners under the terms of this Indenture and any supplement thereto or amendment thereof.

Section 11.20 Additional Information. The Insurer shall have the right to receive such additional information as it may reasonably request.

Section 11.21 Discussion of and Access to Information. The Issuer will permit the Insurer to discuss the affairs, finances and accounts of the Issuer or any information the Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the Issuer and will use commercially reasonable efforts to enable the Insurer to have access to the facilities, books and records of the Issuer on any business day upon reasonable prior notice.

Section 11.22 Notices. All written notices to be given hereunder shall be given by first class mail, postage redeemed, to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other parties in writing from time to time, namely:

If to the Trustee: The Bank of New York Mellon Trust Company, N.A.
400 South Hope Street, Suite 500
Los Angeles, California 90071
Attention: Corporate Trust Department

If to the Issuer: Palmdale Water District Public Financing Authority
2029 E. Avenue Q
Palmdale, California 93550
Attention: Executive Director

If to the District: Palmdale Water District
2029 E. Avenue Q
Palmdale, California 93550
Attention: General Manager

If to the Insurer: _____

Attention: _____

The Trustee shall give notices to S&P and Fitch upon (i) redemption of all Outstanding Bonds, (ii) acceleration of amounts due with respect to the Bonds, (iii) amendments to the Indenture, or (iv) any defeasance of the Bonds.

Section 11.23 Execution in Counterparts. The Indenture may be executed and entered into in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

Section 11.24 Effective Date. The Indenture shall become effective upon its execution and delivery.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, the parties hereto have executed and entered into the Indenture by their officers hereunto duly authorized as of the day and year first above written.

THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A., as Trustee

By: _____
Authorized Officer

PALMDALE WATER DISTRICT PUBLIC
FINANCING AUTHORITY

By: _____
Executive Director

ATTEST:

Secretary

EXHIBIT A

[FORM OF BOND]

No. _____

\$ _____

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY TO THE TRUSTEE FOR REGISTRATION OF 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.

**UNITED STATES OF AMERICA
STATE OF CALIFORNIA**

**PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY
WATER REVENUE BONDS, SERIES 2018A**

Interest Rate	Maturity Date	Dated Date	CUSIP
_____%	October 1, 20__	_____, 2018	_____

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: _____ DOLLARS

The PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY, a joint exercise of powers agency duly organized and existing under the laws of the State of California (the "Authority"), for value received, hereby promises to pay to the Registered Owner specified above or registered assigns (the "Registered Owner"), on the Maturity Date specified above (subject to any right of prior redemption hereinafter provided for), the Principal Amount specified above, in lawful money of the United States of America, and to pay interest thereon in like lawful money from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication of this Bond (unless (i) this Bond is authenticated after the fifteenth day of the calendar month preceding an Interest Payment Date (the "Record Date") and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (ii) this Bond is authenticated on or before _____, in which event it shall bear interest from the Dated Date identified above; provided, however, that if as of the date of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on this Bond), at the interest rate per annum specified above, payable on each Interest Payment Date as set forth in the Indenture of Trust, dated as of _____ 1, 2018 (the "Indenture") relating to the Bonds, by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Interest on this Bond shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

Principal hereof, premium, if any, upon early redemption hereof, and interest, are payable in lawful money of the United States of America. Principal and premium, if any, shall be paid upon presentation and surrender at the corporate trust office of the Trustee, in New York, New York, or at such other or additional offices as may be specified in writing by the Trustee to the Authority and the registered owners (the "Principal Corporate Trust Office"). Interest hereon is payable by check of the Trustee sent by first class mail to the Registered Owner hereof at the Registered Owner's address as it appears on the registration books of the Trustee as of the close of business on the Record Date immediately preceding each Interest Payment Date (except that in the case of a registered owner of one million dollars (\$1,000,000) or more in principal amount, such payment may, at such registered owner's option, be made by wire transfer of immediately available funds to an account within the United States of America in accordance with written instructions provided to the Trustee by such registered owner prior to the Record Date).

Capitalized terms used herein and not defined herein have the meaning assigned thereto in the Indenture.

This Bond is not a debt of the members of the Authority, the State of California, or any of its political subdivisions, and neither the members of the Authority or the State, nor any of its political subdivisions, is liable hereon, nor in any event shall this Bond be payable out of any funds or properties of the Authority other than the Revenues and other amounts pledged therefor under the Indenture. The Bonds (as hereinafter defined) do not constitute an indebtedness in contravention of any constitutional or statutory debt limitation or restriction.

The Bonds are authorized to be issued in the form of fully registered Bonds in Authorized Denominations; provided that no Bond shall have principal represented thereby maturing in more than one year. Subject to the limitations and conditions and upon payment of the taxes and governmental charges as provided in the Indenture, Bonds may be exchanged or transferred as provided in the Indenture at the Principal Corporate Trust Office of the Trustee.

This Bond is one of a duly authorized issue of bonds of the Authority designated as the "Palmdale Water District Public Financing Authority Water Revenue Bonds, Series 2018A" (the "Bonds"), in an aggregate principal amount of \$_____, all of like tenor and date (except for such variation, if any, as may be required to designate varying numbers, maturities, or interest rates) and all issued pursuant to the laws of the State of California, including the Act, and pursuant to the Indenture and the resolution of the Board of Directors of the Authority authorizing the issuance of the Bonds. Reference is hereby made to the Indenture (copies of which are on file at the office of the Authority) and all supplements thereto for a description of the terms on which the Bonds are issued, the provisions with regard to the nature and extent of the Revenues, and the rights thereunder of the owners of the Bonds and the rights, duties and immunities of the Trustee and the rights and obligations of the Authority hereunder, to all of the provisions of which the Registered Owner of this Bond, by acceptance hereof, assents and agrees.

The Bonds have been issued by the Authority to finance the acquisition and construction of certain facilities which are a part of the District's Water System, and to prepay certain of the District's outstanding obligations.

This Bond and the interest and premium, if any, hereon and all other Bonds and the interest and premium, if any, thereon (to the extent set forth in the Indenture) are special obligations of the Authority, and are payable from, and are secured by a pledge and a first and exclusive lien on the

Revenues. As and to the extent set forth in the Indenture, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture (except the Rebate Fund) are exclusively and irrevocably pledged in accordance with the terms hereof and the provisions of the Indenture, to secure the payment of the principal of and interest and premium (if any) on the Bonds.

The Bonds shall be subject to redemption prior to maturity as follows:

The Bonds are subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity and within maturities as directed by the District in a Written Request provided to the Trustee at least 60 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date and by lot within each maturity in integral multiples of \$5,000 from Net Proceeds, upon the terms and conditions of, and as provided for in, the Indenture at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

The Bonds maturing on and before October 1, 20__ are not subject to optional redemption prior to their stated maturities. The Bonds maturing on and after October 1, 20__ are subject to optional redemption, in whole or in part, on any date on and after October 1, 20__, from such maturities as are selected by the District in a written request to the Trustee at least 45 days (or such lesser number of days acceptable to the Trustee in its sole discretion) prior to such date, in integral multiples of \$5,000, from any source of available funds provided to the Authority by or at the discretion of the District, at a Redemption Price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date of redemption, without premium.

The Term Bonds maturing on October 1, 20__ shall be paid at maturity and are subject to mandatory sinking fund redemption, in part by lot, from Sinking Account payments set forth in the following schedule on October 1, 20__ and on each October 1 thereafter to maturity, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the Term Bonds maturing on October 1, 20__ have been redeemed pursuant to the optional redemption or extraordinary redemption provisions of the Indenture, the total amount of Sinking Account payments to be made subsequent to such redemption will be reduced in an amount equal to the principal amount of the Term Bonds maturing on October 1, 20__ so redeemed by reducing each such future Sinking Account payments on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000, as will be designated pursuant to written notice filed by the District with the Trustee:

<i>Redemption Date</i> <i>(October 1)</i>	<i>Principal</i> <i>Amount</i>
--	-----------------------------------

*

* Final Maturity.

In lieu of such redemption, the Trustee may apply amounts in the Principal Account to the purchase of Term Bonds at public or private sale for cancellation, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the

Interest Account) as may be directed by the District, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Term Bonds, as set forth in a Written Request of the District and subsequently cancelled or surrendered to the Trustee for cancellation. The par amount of any Term Bonds so purchased by the District in any twelve-month period immediately preceding any September 15 will be credited towards and will reduce the principal amount of Term Bonds required to be redeemed on the succeeding October 1.

The Indenture and the rights and obligations of the Authority, the Owners and the Trustee thereunder may be amended or supplemented at any time by an amendment or supplement which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture, are filed with the Trustee. No such amendment or supplement shall (1) reduce the rate of interest on any Bond or extend the time of payment thereof or reduce the amount of principal or redemption premium, if any, of any Bond or extend the maturity thereof or otherwise alter or impair the obligation of the Issuer to pay the interest and principal and redemption premium, if any, thereon at the time and place and at the rate and in the currency and from the funds provided therein without the prior written consent of the Owner of the Bond so affected, or (2) modify any of the rights or obligations of the Trustee without its prior written consent thereto.

The Indenture and the rights and obligations of the Issuer and the District and the Owners and the Trustee thereunder may also be amended or supplemented at any time by an amendment or supplement which shall become binding upon execution without the written consents of any Owners, but only to the extent permitted by law and after receipt of an approving Opinion of Special Counsel and only if, in the opinion of the Trustee (which opinion may be based upon an Opinion of Special Counsel or a Certificate of the District), such amendment or supplement is not materially adverse to the interests of the Owners, including, but not limited to, amendments or supplements:

(a) to add to the agreements, conditions, covenants and terms contained therein required to be observed or performed by the Issuer or the District other agreements, conditions, covenants and terms thereafter to be observed or performed by the Issuer or the District, or to surrender any right reserved therein to or conferred therein on the Issuer or the District, and which in either case shall not adversely affect the interests of the Owners;

(b) to modify, amend or supplement the Indenture in such manner as to preserve the exemption of the Bonds from the registration requirements of the Securities Act of 1933 or any similar federal statute hereafter in effect or to permit the qualification of the Indenture under the Trust Indenture Act of 1939 or any similar federal statute hereinafter in effect;

(c) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained therein or in regard to questions arising thereunder which the Issuer or the District may deem desirable or necessary, and which shall not adversely affect the interests of the Owners; and

(d) to make any modifications or changes necessary or appropriate in the Opinion of Special Counsel to preserve or protect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

The Trustee has no obligation or liability to the registered owners of the Bonds for the payment of interest, principal or redemption premium, if any, with respect to the Bonds out of the Trustee's own funds; the Trustee's sole obligations are those described in the Indenture.

If an Event of Default, as defined in the Indenture, shall occur, the principal of all Bonds may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture, but such declaration and its consequences may be rescinded and annulled as further provided in the Indenture.

This Bond is transferable by the Registered Owner hereof, in person or by his or her duly authorized attorney, at the Office of the Trustee but only in the manner subject to the limitations and upon payment of the taxes and charges provided in the Indenture and upon surrender and cancellation of this Bond. Upon registration of such transfer, a new Bond or Bonds, of authorized denomination or denominations, for a like aggregate principal amount and of like maturity will be issued to the transferee in exchange therefor.

Bonds may be exchanged at said office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of like maturity, but only in the manner, subject to the limitations and upon payment of the taxes and charges provided in the Indenture.

The Trustee shall not be required to register the transfer of or exchange of any Bond during the period in which the Trustee is selecting Bonds for redemption and any Bond that has been selected for redemption.

The Authority and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the Authority and the Trustee shall not be affected by any notice to the contrary.

It is hereby certified that all of the things, conditions and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due and regular time, form and manner as required by the Act, the Indenture, and the Constitution and laws of the State of California, and that the amount of this Bond, together with all other indebtedness of the Authority, does not exceed any limit prescribed by the Constitution or any laws of the State of California, or by the Act.

This Bond shall not be entitled to any benefit under the Indenture or become valid or obligatory for any purpose until the certificate of authentication hereon endorsed shall have been signed by the Trustee.

IN WITNESS WHEREOF, the PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY has caused this Bond to be executed in its name and on its behalf with the facsimile signature of its President and attested to by the facsimile signature of its Secretary, all as of this _____ day of _____, 2018.

PALMDALE WATER DISTRICT PUBLIC
FINANCING AUTHORITY

By: _____
President

ATTEST:

By: _____
Secretary

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION]

This is one of the Bonds described in the within-mentioned Indenture.

Dated: _____

THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., as Trustee

By: _____
Authorized Officer

[FORM OF LEGAL OPINION]

The following is a true copy of the opinion rendered by Stradling Yocca Carlson & Rauth, a Professional Corporation, in connection with the issuance of, and dated as of the date of the original delivery of, the Bonds. A signed copy is on file in my office.

Secretary of the Board of the Palmdale Water District
Public Financing Authority

[FORM OF STATEMENT OF INSURANCE]

[TO COME]

[FORM OF ASSIGNMENT]

For value received the undersigned hereby sells, assigns and transfers unto _____

(Name, Address and Tax Identification or
Social Security Number of Assignee)

the within-registered 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: _____, 20__

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.

Signature Guaranteed:

Note: Signature(s) must be guaranteed by an
eligible guarantor institution.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2018

NEW ISSUE—BOOK-ENTRY ONLY

RATINGS: S&P: “_” (Insured); “_” (Underlying)
FITCH: “_” (Insured); “_” (Underlying)
(See “RATINGS” herein)

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original discount) on the 2018A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2018A Bonds is exempt from State of California personal income tax. See the caption “TAX MATTERS” herein.

\$ _____ *

**PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY
WATER REVENUE BONDS, SERIES 2018A**

Dated: Date of Delivery

Due: October 1, as shown on the inside cover

The Palmdale Water District Public Financing Authority’s (the “Authority”) Water Revenue Bonds, Series 2018A (the “2018A Bonds”), are being issued by the Authority pursuant to an Indenture of Trust, dated as of June 1, 2018 (the “Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee, and will be payable from the sources described herein. The 2018A Bonds are being issued: (i) to finance certain improvements to the District’s water system, including Littlerock Dam; (ii) to purchase a municipal bond insurance policy to guarantee payment of the principal of and interest on the 2018A Bonds; (iii) to purchase a municipal bond debt service reserve insurance policy for deposit in the Reserve Fund; and (iv) to pay the costs of issuing the 2018A Bonds.

Interest due on the 2018A Bonds is payable semiannually on April 1 and October 1 of each year, commencing October 1, 2018. The 2018A Bonds are being issued in fully registered book-entry form and initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Purchasers will not receive certificates representing their interest in the 2018A Bonds. Individual purchases will be in principal amounts of \$5,000 and integral multiples thereof. Payments of principal of and interest on the 2018A Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the 2018A Bonds.

The 2018A Bonds are subject to redemption prior to maturity as described in this Official Statement. See “THE 2018A BONDS—Redemption of 2018A Bonds.”

The 2018A Bonds are limited obligations of the Authority. The 2018A Bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the Indenture. Revenues consist primarily of installment payments (the “Series 2018A Installment Payments”) received by the Authority from the District pursuant to an Installment Purchase Agreement, dated as of June 1, 2018 (the “Installment Purchase Agreement”), by and between the District and the Authority. The obligation of the District to make the Series 2018A Installment Payments is a special obligation of the District payable solely from Net Water Revenues (defined herein) on a parity with Parity Payments in the aggregate principal amount of approximately \$ _____, as further described herein.

The District will covenant not to incur additional obligations payable from Net Water Revenues senior to the Series 2018A Installment Payments. The District may incur additional obligations payable from Net Water Revenues on a parity with the Series 2018A Installment Payments and the Parity Payments, subject to the terms and conditions set forth in the Installment Purchase Agreement.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY PUBLIC AGENCY THEREOF OR ANY MEMBER OF THE AUTHORITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL AMOUNT OR REDEMPTION PRICE OF, OR INTEREST ON, THE 2018A BONDS. THE AUTHORITY HAS NO TAXING POWER. THE 2018A BONDS DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF CALIFORNIA OR ANY PUBLIC AGENCY THEREOF (OTHER THAN THE AUTHORITY) OR ANY MEMBER OF THE AUTHORITY.

MATURITY SCHEDULE
(See inside front cover)

THE OBLIGATION OF THE DISTRICT TO MAKE THE SERIES 2018A INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM NET WATER REVENUES OF THE DISTRICT AND OTHER FUNDS DESCRIBED IN THE INSTALLMENT PURCHASE AGREEMENT, AND DOES NOT CONSTITUTE AN OBLIGATION THAT THE DISTRICT IS OBLIGATED TO PAY FROM ANY OTHER DISTRICT REVENUES OR TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE DISTRICT TO MAKE THE SERIES 2018A INSTALLMENT PAYMENTS UNDER THE INSTALLMENT PURCHASE AGREEMENT DOES NOT CONSTITUTE A DEBT OF THE DISTRICT OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The scheduled payment of principal of and interest on the 2018A Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the issuance of the 2018A Bonds by _____ (“Insurer”).

[Insurer’s Logo]

This cover page contains certain information for quick reference only. It is not a complete summary of the 2018A Bonds. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The 2018A Bonds are offered when, as and if issued, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, and certain other conditions. Stradling Yocca Carlson & Rauth, a Professional Corporation, is serving as Disclosure Counsel to the District with respect to the 2018A Bonds. Certain legal matters will be passed upon for the District and the Authority by Aleshire & Wynder LLP, their general counsel, for the Underwriter by Nossaman LLP, for the Trustee by its counsel and for the Insurer by its counsel. It is anticipated that the 2018A Bonds will be available for delivery through the facilities of the Depository Trust Company on or about _____, 2018.

[PIPER LOGO]

Dated: _____, 2018

* Preliminary, subject to change.

\$ _____ *

PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY
WATER REVENUE BONDS, SERIES 2018A

MATURITY SCHEDULE

<i>Maturity (October 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP[†]</i>
--	------------------------------------	-----------------------------	---------------------	---------------------	---------------------------------

\$ _____ % Term Bonds due October 1, 20__; Price ____; CUSIP[†] _____

* Preliminary, subject to change.

[†] CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright © 2018 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP® numbers are provided for convenience of reference only. None of the Authority, the District nor the Underwriter takes any responsibility for the accuracy of such numbers.

**PALMDALE WATER DISTRICT
LOS ANGELES COUNTY, CALIFORNIA**

BOARD OF DIRECTORS

Vincent Dino, *President*
Kathy Mac Laren, *Vice President*
Joe Estes, *Secretary*
Marco Henriquez, *Treasurer*
Robert E. Alvarado, *Director*

PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY

BOARD OF DIRECTORS

Vincent Dino, *President*
Kathy Mac Laren, *Vice President*
Joe Estes, *Secretary*
Marco Henriquez, *Director*
Robert E. Alvarado, *Director*

DISTRICT STAFF

Dennis D. LaMoreaux, *General Manager/Chief Executive Officer*
Michael A. Williams, *Finance Manager/Chief Financial Officer*
Robert M. Egan, CPA, *Financial Consultant*

BOND COUNSEL AND DISCLOSURE COUNSEL

Stradling Yocca Carlson & Rauth,
a Professional Corporation
Newport Beach, California

MUNICIPAL ADVISOR

NHA Advisors LLC
San Rafael, California

TRUSTEE

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

TABLE OF CONTENTS

INTRODUCTION	1	SYSTEM FINANCIAL INFORMATION	46
THE PROJECT	3	Rates and Charges.....	46
Description of Project	3	Operating Revenues	48
ESTIMATED SOURCES AND USES OF		Principal Water Users	55
FUNDS	4	Customer Base	55
THE 2018A BONDS	4	New Meter Connections, Consumption and	
Terms of the 2018A Bonds	4	Sales	56
Redemption of 2018A Bonds.....	4	Financial Statements	56
Notice of Redemption	5	Historical Operating Results and Debt Service	
Selection of 2018A Bonds for Redemption	6	Coverage	57
Partial Redemption of 2018A Bonds	6	Projected Earnings and Debt Service Coverage...	60
Effect of Redemption of 2018A Bonds.....	6	CONSTITUTIONAL LIMITATIONS ON	
Reserve Fund	7	APPROPRIATIONS AND CHARGES	62
Book-Entry Only System.....	7	Proposition 218	62
Transfers and Exchanges Upon Termination of		Proposition 26.....	63
Book-Entry Only System.....	7	Article XIII A.....	64
Debt Service Schedule	9	Article XIII B.....	64
SECURITY FOR THE 2018A BONDS.....	11	Proposition 1A	65
General.....	11	Future Initiatives	65
Pledge of Water Revenues	12	THE AUTHORITY	65
Allocation of Water Revenues	14	RISK FACTORS	65
Rate Covenant.....	15	Limited Obligations	65
Reserve Fund	15	Increased Operation and Maintenance Costs	65
Rate Stabilization Fund.....	16	Property Tax Collections	65
Additional Bonds and Contracts	16	Rate Covenant Not a Guarantee; Failure to	
BOND INSURANCE	17	Meet Projections	66
PALMDALE WATER DISTRICT	17	Projected Operating Results.....	66
General.....	17	Environmental Regulation	67
Land and Land Use	18	Shortage of Imported Water and Drought.....	67
Local Economy	19	Seismic Considerations.....	67
Governance and Management.....	19	Water System Demand and Possible Increase	
Powers.....	20	in Unpaid Water Bills	67
Employees.....	20	Climate Change.....	68
Pension Benefits	20	Limited Recourse on Default; Insurer Right to	
Other Post-Employment Benefits	23	Control Remedies	68
Budget Process.....	25	Future Capital Projects and Additional	
Insurance.....	25	Obligations.....	68
Seismic Consideration	25	Acceleration upon Default	69
Outstanding Indebtedness	26	Secondary Market for Bonds	69
District's Investment Policy.....	28	Effect of Bankruptcy.....	69
Unrestricted Reserves	29	Loss of Tax Exemption.....	69
THE WATER SYSTEM	29	TAX MATTERS	69
General Description	29	CERTAIN LEGAL MATTERS	71
Local Groundwater	30	LITIGATION	72
Surface Water	32	The Authority.....	72
State Water Project	32	The District	72
District Water Facilities	33	RATINGS.....	72
Quality of District's Water.....	34	UNDERWRITING	73
Future Capital Projects.....	34	CONTINUING DISCLOSURE	
Future Water Sources.....	36	UNDERTAKING	73
FACTORS AFFECTING WATER SUPPLIES	37	MISCELLANEOUS	74
State Water Project	37	APPENDIX A— AUDITED FINANCIAL	
California Water Policy Framework	42	STATEMENTS OF THE DISTRICT FOR	
Antelope Valley Groundwater Basin	44	YEAR ENDING DECEMBER 31, 2017	B-1
California Drought and Response	45	APPENDIX B—DEFINITIONS AND SUMMARY	
Water Supply Limitations	46	OF CERTAIN DOCUMENTS.....	B-1

Table of Contents
(continued)

	Page
APPENDIX C—FORM OF BOND COUNSEL’S OPINION	C-1
APPENDIX D—DTC AND BOOK-ENTRY ONLY SYSTEM	D-1
APPENDIX E—FORM OF CONTINUING DISCLOSURE CERTIFICATE	E-1
APPENDIX F—SPECIMEN MUNICIPAL BOND INSURANCE POLICY	F-1
APPENDIX G—SUPPLEMENTAL INFORMATION CONCERNING THE CITY OF PALMDALE	G-1

NO DEALER, BROKER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION IN CONNECTION WITH THE OFFER OR SALE OF THE 2018A BONDS, OTHER THAN AS CONTAINED IN THIS OFFICIAL STATEMENT, AND, IF GIVEN OR MADE, ANY SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE AUTHORITY, THE DISTRICT OR THE UNDERWRITER. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES OTHER THAN THOSE DESCRIBED ON THE COVER PAGE OR AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE 2018A BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH OFFER, SOLICITATION OR SALE. THE OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT WITH THE PURCHASERS OF THE 2018A BONDS.

The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. The Underwriter has provided the following sentence for inclusion in this Official Statement:

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

The information and expressions of opinion in this Official Statement are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the Authority since the date hereof.

This Official Statement contains forward-looking statements, including: (a) statements containing projections of Net Water Revenues, expenditures and other financial items; (b) statements of the plans and objectives of the District for future operations of the water system; (c) statements of future economic performance of the water system; and (d) statements of the assumptions underlying or relating to statements described in (a), (b) and (c) above (collectively, "Forward-Looking Statements"). All statements other than statements of historical facts included in this Official Statement, including without limitation statements under APPENDIX A—"AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR YEAR ENDING DECEMBER 31, 2017" regarding the District's financial position, business strategy, capital resources and plans and objectives for future operations of the water system, are Forward-Looking Statements. Although such expectations reflected in such Forward-Looking Statements are reasonable, there can be no assurance that such expectations will prove to have been correct. Statements of important factors (collectively, the "Cautionary Statements") that could cause actual results to differ materially from expectations of the District are disclosed in this Official Statement. All subsequent written and oral Forward-Looking Statements attributable to the District or any person acting on behalf of the District are expressly qualified in their entirety by the Cautionary Statements.

This Official Statement is submitted in connection with the sale of the 2018A Bonds and may not be reproduced or be used, as a whole or in part, for any other purpose.

In connection with the offering of the 2018A Bonds, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the 2018A Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the 2018A Bonds to certain dealers and dealer banks and banks acting as agent and others at prices lower than the public offering prices stated on the inside cover page of this Official Statement, and the Underwriter may change those public offering prices from time to time.

THE 2018A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), IN RELIANCE UPON AN EXEMPTION CONTAINED IN THE ACT. THE 2018A BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

The District maintains a website. However, the information presented there is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the 2018A Bonds.

\$ _____ *

**PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY
WATER REVENUE BONDS, SERIES 2018A**

INTRODUCTION

General. This Official Statement provides information concerning the issuance of the Palmdale Water District Public Financing Authority Water Revenue Bonds, Series 2018A (the “2018A Bonds”) pursuant to an Indenture of Trust, dated as of June 1, 2018 (the “Indenture”), by and between the Palmdale Water District Public Financing Authority (the “Authority”) and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). See the caption “THE 2018A BONDS.”

All capitalized terms used herein and not normally capitalized have the meanings assigned to them in the Indenture and the Installment Purchase Agreement, the summaries of which are included in Appendix B, unless otherwise stated in this Official Statement.

The Authority. The Authority is a joint exercise of powers agency organized under the provisions of State law governing the joint exercise of powers, being Chapter 5, Division 7, Title 1 of the Government Code of the State (the “Act”) and a Joint Exercise of Powers Agreement, dated as of April 10, 2013 (the “Joint Powers Agreement”), by and between the Palmdale Water District (the “District”) and the California Municipal Finance Authority, to assist the District in financing and refinancing improvements to its Water System. Under the Act and the Joint Powers Agreement, the Authority has the power to issue bonds to assist the District in financing and refinancing the costs of public capital improvements. See the caption “THE AUTHORITY.”

Purposes of the 2018A Bonds. The 2018A Bonds are being issued by the Authority: (i) to finance certain improvements to the District’s water system, including Littlerock Dam; (ii) to purchase a municipal bond insurance policy to guarantee payment of the principal of and interest on the 2018A Bonds (the “Policy”); (iii) to purchase a municipal bond debt service reserve insurance policy for deposit in the Reserve Fund (the “Reserve Surety Policy”); and (iv) to pay the costs of issuing the 2018A Bonds.

Authority for Issuance. The 2018A Bonds are being issued under the Indenture and the Marks-Roos Local Bond Pooling Act of 1985, as amended, constituting Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the “State”). In connection with the authorization of the 2018A Bonds on May 29, 2018, the Authority adopted a resolution (the “Authorizing Resolution”) approving the 2018A Bonds and the execution and delivery of the Indenture and the District adopted a resolution approving the execution and delivery of various documents related to the 2018A Bonds.

Sources of Payment for the 2018A Bonds. The 2018A Bonds are limited obligations of the Authority. The 2018A Bonds are payable solely from “Revenues” and from certain other amounts on deposit in funds and accounts under the Indenture. Revenues consist primarily of payments (the “Series 2018A Installment Payments”) received by the Trustee from the District pursuant to an Installment Purchase Agreement, dated as of June 1, 2018 (the “Installment Purchase Agreement”), by and between the District and the Authority. See the caption “SECURITY FOR THE 2018A BONDS.”

The 2018A Bonds do not constitute a charge against the general credit of the Authority. The 2018A Bonds are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts except for moneys pledged under the Indenture which includes the Series 2018A Installment Payments under the Installment Purchase Agreement. Neither the faith and credit nor the taxing power of the State or any public agency thereof, including the District and any other member of the Authority, is pledged to the payment of the principal amount or redemption price of, or interest on, the 2018A

* Preliminary, subject to change.

Bonds. The Authority has no taxing power. The 2018A Bonds do not constitute a debt, liability or obligation of the State or any public agency thereof (other than the Authority) or any member of the Authority.

Pursuant to the Installment Purchase Agreement, the District is obligated to pay the Series 2018A Installment Payments as the purchase price for certain capital improvements described in the Installment Purchase Agreement. The obligation of the District to make the Series 2018A Installment Payments is a special obligation of the District payable solely from Net Water Revenues of the District's Water System and other funds described in the Installment Purchase Agreement, and does not constitute a debt of the District or of the State of California or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Net Water Revenues include Water Revenues remaining after payment of Operation and Maintenance Costs. See the caption "SECURITY FOR THE 2018A BONDS."

The obligation of the District to make the Series 2018A Installment Payments from Net Water Revenues is on a parity with the obligation of the District to make payments of principal and interest under that certain Installment Purchase Agreement, dated as of November 1, 2012 (the "2012 Installment Purchase Agreement"), by and between the District and the Palmdale Water District Public Facilities Corporation (the "2012 Installment Payments"), on a parity with the obligation of the District to make payments of principal and interest under that certain Installment Purchase Agreement, dated as of May 1, 2013 (the "2013 Installment Purchase Agreement"), by and between the District and the Authority (the "2013 Installment Payments") and on a parity with the obligation of the District to make payments of principal and interest under that certain Installment Purchase Agreement, dated as of January 18, 2017 (the "2017 Installment Purchase Agreement" and, collectively with the 2012 Installment Purchase Agreement and 2013 Installment Purchase Agreement, the "Parity Installment Purchase Agreements"), by and between the District and Holman Capital Corporation (the "2017 Installment Payments" and, collectively with the 2012 Installment Payments and 2013 Installment Payments, the "Parity Payments"). See Table 2 herein for the combined payment schedule for the Parity Payments.

Reserve Fund. A Reserve Fund for the 2018A Bonds is established pursuant to the Indenture in an amount equal to the Reserve Requirement, which, as of the date of calculation, is an amount equal to the lowest of (i) 10% of the initial principal amount of the 2018A Bonds, (ii) Maximum Annual Debt Service on the Outstanding 2018A Bonds, or (iii) 125% of average Annual Debt Service on the Outstanding 2018A Bonds (the "Reserve Requirement"). _____ (the "Insurer") has committed to issue, simultaneously with the execution and delivery of the 2018A Bonds, the Reserve Surety Policy in an amount equal to \$_____, which is the initial Reserve Requirement for deposit in the Reserve Fund.

Bond Insurance. Payment of principal of and interest on the 2018A Bonds will be insured by the Policy to be issued by the Insurer concurrently with the issuance of the 2018A Bonds. See the caption "BOND INSURANCE" and APPENDIX F.

Additional Parity Obligations. The District will covenant in the Installment Purchase Agreement not to incur additional obligations payable from Net Water Revenues senior to the Series 2018A Installment Payments. The District may incur additional obligations on a parity with the Series 2018A Installment Payments and the Parity Payments, subject to the terms and conditions described under the caption "SECURITY FOR THE 2018A BONDS—Limitations on Parity and Superior Obligations; Subordinate Obligations."

The District and the Water System. The District is located in northern Los Angeles County and serves an area of approximately 74,000 acres. The District's Water System provides water service to the residents of the City of Palmdale (the "City") as well as unincorporated areas located in Los Angeles County. See the caption "THE DISTRICT."

Professionals Involved in the Offering. The Bank of New York Mellon Trust Company, N.A. will act as Trustee with respect to the 2018A Bonds. The 2018A Bonds are offered when, as and if issued, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and certain other conditions. Stradling Yocca Carlson & Rauth, a Professional Corporation, is serving as Disclosure Counsel to the District with respect to the 2018A Bonds. NHA Advisors, LLC is serving as Municipal Advisor to the District with respect to the 2018A Bonds. Certain legal matters will be passed on for the Underwriter by its counsel, Nossaman LLP, for the District and the Authority by Aleshire & Wynder LLP, their general counsel, for the Trustee by its counsel and for the Insurer by its counsel.

Other Information about this Official Statement. There follows in this Official Statement (and attached appendices) a brief description of the 2018A Bonds, the security for the 2018A Bonds, the District, the Authority and certain other information relevant to the issuance of the 2018A Bonds. The 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.

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement.

THE PROJECT

Description of Project

The District will use a portion of the proceeds of the 2018A Bonds to construct various capital improvements to its Water System. The expected project components and the estimated costs, including contingencies, are listed in the table below. While the District expects to complete the projects listed below, the District may substitute other improvements for one or more of the listed components.

Cost Item	Cost
Design, Engineering and Other Preconstruction Costs	\$ 173,000
Littlerock Grade Control Structure	8,160,257
Various water main replacements	1,789,612
Renovation to 6.0 million gallon reservoir	1,050,000
Water treatment plant improvements	<u>2,375,000</u>
TOTAL	<u>\$13,547,869</u>

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the 2018A Bonds are set forth below.

Table 1
PALMDALE WATER DISTRICT PUBLIC FINANCING AUTHORITY
Estimated Sources and Uses of Funds

Sources

Principal Amount of 2018A Bonds	\$
[Plus/Less] Net Original Issue [Premium/Discount]	_____
TOTAL	<u>\$</u>

Uses

Construction Fund	\$
Costs of Delivery ⁽¹⁾	_____
TOTAL	<u>\$</u>

⁽¹⁾ Includes Underwriter's Discount and fees for Trustee, legal fees, printing costs, rating agency fees, bond insurance and reserve surety premiums and other costs of delivery.

THE 2018A BONDS

Terms of the 2018A Bonds

The 2018A Bonds will be issued in the aggregate principal amount of \$ _____* and will be dated as of the date of issuance. Interest on the 2018A Bonds is payable on April 1 and October 1 of each year, commencing October 1, 2018 (each an "Interest Payment Date"). The principal of and premium, if any, and interest on the 2018A Bonds is payable in lawful money of the United States of America. Such amounts will be paid by the Trustee on the applicable payment dates by the Trustee to the respective Owners thereof on the applicable Interest Payment Date at their addresses as they appear as of the close of business on the fifteenth day of the month preceding such Interest Payment Date (the "Record Date") in the registration books kept by the Trustee, except that in the case of such an Owner of \$1,000,000 or more in aggregate principal amount of 2018A Bonds, upon the written request of such Owner to the Trustee at least two Business Days before the Record Date, specifying the account or accounts in the United States to which such payment will be made, such payments will be made by wire transfer of immediately available funds on the applicable payment date following such Record Date. Any request referred to in the preceding sentence will remain in effect until revoked or revised by such Owner by an instrument in writing delivered to the Trustee. When a Book-Entry System is in effect, interest may be paid by wire transfer in accordance with mutually satisfactory arrangements between the Trustee and the Securities Depository. Interest on the 2018A Bonds will accrue at the rates per annum and will mature on the dates set forth on the inside front cover page of this Official Statement. Interest on the 2018A Bonds will be computed based on a year consisting of 360 days and twelve 30-day months. Individual purchases will be made in principal amounts of \$5,000 and integral multiples thereof.

Redemption of 2018A Bonds

Optional Redemption. The 2018A Bonds maturing on October 1, 20__ are subject to optional redemption, in whole or in part, on any date on and after October 1, 20__, from such maturities as are selected by the District in a written request to the Trustee at least 45 days (or such lesser number of days acceptable to the Trustee in its sole discretion) prior to such date, in integral multiples of \$5,000, from any source of available funds provided to the Authority by or at the discretion of the District, at a Redemption Price equal to

* Preliminary, subject to change.

the principal amount of the 2018A Bonds to be redeemed, together with accrued interest to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The Term Bonds maturing on October 1, 20__ shall be paid at maturity and are subject to mandatory sinking fund redemption, in part by lot, from Sinking Account payments set forth in the following schedule on October 1, 20__, and on October 1 each year thereafter, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the Term Bonds maturing on October 1, 20__ have been redeemed pursuant to the optional redemption or extraordinary redemption provisions of the Indenture, the total amount of Sinking Account payments to be made subsequent to such redemption will be reduced in an amount equal to the principal amount of the Term Bonds maturing on October 1, 20__ so redeemed by reducing each such future Sinking Account payment on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000, as will be designated pursuant to written notice filed by the District with the Trustee:

<i>Redemption Date (October 1)</i>	<i>Principal Amount</i>
---	------------------------------------

\$

*

* Final Maturity.

In lieu of such redemption, the Trustee may apply amounts in the Principal Account to the purchase of Term Bonds at public or private sale for cancellation, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as may be directed by the District, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Term Bonds, as set forth in a Written Request of the District and subsequently cancelled or surrendered to the Trustee for cancellation. The par amount of any Term Bonds so purchased by the District in any twelve-month period immediately preceding any September 15 will be credited towards and will reduce the principal amount of Term Bonds required to be redeemed on the succeeding October 1.

Extraordinary Redemption. The 2018A Bonds are subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity and within maturities as directed by the District in a Written Request of the District provided to the Trustee at least 60 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date and by lot within each maturity in integral multiples of \$5,000 from Net Proceeds of insurance or condemnation, upon the terms and conditions of, and as provided for in, the Indenture, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium. See Appendix B under the caption “DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS—Particular Covenants—Insurance” and “DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS—Particular Covenants—Eminent Domain Proceeds,” respectively, for a description of the circumstances under which the 2018A Bonds could be subject to extraordinary redemption from Net Proceeds of insurance or condemnation.

Notice of Redemption

The District will notify the Trustee at least 45 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee) prior to any optional or extraordinary redemption date for 2018A Bonds pursuant to the Indenture. Notice of redemption will be given by the Trustee, not less than 30 nor more than 60 days prior to the redemption date: (i) to the respective Owners of any 2018A Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee by first-class mail; (ii) to the Securities Depository electronically or by such method as is acceptable to the Securities Depository; and

(iii) to the Municipal Securities Rulemaking Board. Notice of redemption will be given in the form and in accordance with the terms of the Indenture.

Each such notice of redemption will state the date of notice, the redemption date, the place or places of redemption and the Redemption Price, will designate the maturities, CUSIP numbers, if any, and, if less than all of any such maturity is to be redeemed, the serial numbers of the 2018A Bonds of such maturity to be redeemed by giving the individual number of each 2018A Bond or by stating that all 2018A Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of 2018A Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on said date there will become due and payable on each of said 2018A Bonds the Redemption Price thereof or of said specified portion of the principal thereof in the case of a 2018A Bond to be redeemed in part only, together with interest accrued with respect thereto to the redemption date, and that (provided that moneys for redemption have been deposited with the Trustee) from and after such redemption date interest thereon ceases to accrue, and will require that such 2018A Bond be then surrendered to the Trustee. Any failure to receive such notice or any defect in the notice or the mailing will not affect the validity of the redemption of any Bond.

With respect to any notice of optional redemption of 2018A Bonds, such notice shall state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such 2018A Bonds to be redeemed and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Trustee shall not be required to redeem such 2018A Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption shall not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received and that the redemption shall not take place.

Selection of 2018A Bonds for Redemption

Whenever provision is made in the Indenture for the redemption of less than all of the 2018A Bonds, (other than mandatory sinking fund redemption of Term Bonds) the Trustee will select the 2018A Bonds to be redeemed from all 2018A Bonds or such given portion of the 2018A Bonds not previously called for redemption, among maturities as directed by the District and approved in writing by the Insurer (so long as the Insurer has not defaulted on any obligation under the Policy or the Reserve Surety Policy), and within each maturity in a manner selected by the Trustee. For purposes of such selection, the Trustee will treat each 2018A Bond as consisting of separate \$5,000 portions and each such portion will be subject to redemption as if such portion were a separate 2018A Bond.

Partial Redemption of 2018A Bonds

Upon surrender of any 2018A Bond redeemed in part only, the Authority will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the District, a new 2018A Bond of Authorized Denominations, and of the same maturity date and interest rate, equal in aggregate principal amount to the unredeemed portion of the 2018A Bond surrendered.

Effect of Redemption of 2018A Bonds

If notice of redemption has been duly given pursuant to the Indenture, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the 2018A Bonds (or portions thereof) so called for redemption is held by the Trustee on the redemption date designated in such notice, the 2018A Bonds (or portions thereof) so called for redemption will become due and payable at the Redemption Price specified in such notice together with interest accrued thereon to the date fixed for redemption, interest on the 2018A Bonds so called for redemption will cease to accrue, such 2018A Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of such 2018A Bonds

will have no rights in respect thereof except to receive payment of the Redemption Price and accrued interest. Neither the failure to receive any notice nor any defect thereon will affect the sufficiency of the proceedings of redemption. All 2018A Bonds redeemed pursuant to the provisions of the Indenture will be cancelled upon surrender thereof and destroyed.

Reserve Fund

The Insurer has made a commitment to issue, simultaneously with the initial execution and delivery of the 2018A Bonds, the debt service reserve insurance policy in the amount of \$_____, which amount is sufficient to satisfy the initial Reserve Requirement, for deposit in the Reserve Fund, effective as of the date of issuance of the 2018A Bonds. Under the terms of the debt service reserve insurance policy, the Insurer will unconditionally and irrevocably guarantee to pay that portion of the scheduled payments of principal of and interest on the 2018A Bonds that becomes due for payment but shall be unpaid by reason of nonpayment by the Authority.

See Appendix B—“DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS” for further information with respect to the debt service reserve insurance policy.

Book-Entry Only System

One fully-registered 2018A Bond for each maturity will be issued in the principal amount of such 2018A Bond. Such 2018A Bonds will be registered in the name of Cede & Co. and will be deposited with DTC.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2018A Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer.

The Authority cannot and does not give any assurances that DTC participants or others will distribute payments with respect to the 2018A Bonds received by DTC or its nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement. See Appendix D hereto for additional information concerning DTC.

Transfers and Exchanges Upon Termination of Book-Entry Only System

In the event that the 2018A Bonds are no longer held in book-entry form, the following transfer and exchange provisions will apply. Any 2018A Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of the Indenture, by the person in whose name it is registered, in person or by such person’s duly authorized attorney, upon surrender of such 2018A Bond for cancellation at the Principal Corporate Trust Office of the Trustee, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee.

Whenever any 2018A Bond is surrendered for transfer, the Trustee will authenticate and deliver a new 2018A Bond of the same series and maturity, for a like aggregate principal amount and of authorized denomination or denominations. The Trustee may charge a sum for each new 2018A Bond authenticated and delivered upon any transfer. The Trustee may require the payment by any 2018A Bond Owner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer. Following any transfer of 2018A Bonds the Trustee will cancel and destroy the 2018A Bonds it has received.

2018A Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee, for a like aggregate principal amount of 2018A Bonds of other authorized denominations of the same series and

maturity. The Trustee may charge a sum for each new 2018A Bond authenticated and delivered upon any exchange except in the case of any exchange of temporary 2018A Bonds for definitive 2018A Bonds. The Trustee may require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of 2018A Bonds, the Trustee will cancel and destroy the 2018A Bonds it has received.

The Trustee is not required to register the exchange or transfer pursuant to the Indenture, of any 2018A Bond: (i) within 15 days preceding selection of 2018A Bonds for redemption; or (ii) selected for redemption.

Debt Service Schedule

Set forth below is the debt service schedule for the 2018A Bonds assuming no optional or extraordinary redemption.

PALMDALE WATER DISTRICT Semi-Annual Debt Service Schedule

<i>2018A Bond Payment Date</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
October 1, 2018			
April 1, 2019			
October 1, 2019			
April 1, 2020			
October 1, 2020			
April 1, 2021			
October 1, 2021			
April 1, 2022			
October 1, 2022			
April 1, 2023			
October 1, 2023			
April 1, 2024			
October 1, 2024			
April 1, 2025			
October 1, 2025			
April 1, 2026			
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April 1, 2030			
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April 1, 2031			
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April 1, 2032			
October 1, 2032			
April 1, 2033			
October 1, 2033			
April 1, 2034			
October 1, 2034			
April 1, 2035			
October 1, 2035			
April 1, 2036			
October 1, 2036			
April 1, 2037			
October 1, 2037			
April 1, 2038			
October 1, 2038			
April 1, 2039			
October 1, 2039			
April 1, 2040			
October 1, 2040			

<i>2018A Bond Payment Date</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
April 1, 2041			
October 1, 2041			
April 1, 2042			
October 1, 2042			
April 1, 2043			
October 1, 2043			
April 1, 2044			
October 1, 2044			
April 1, 2045			
October 1, 2045			
April 1, 2046			
October 1, 2046			
April 1, 2047			
October 1, 2047			
April 1, 2048			
October 1, 2048			
TOTAL			

Table 2 below sets forth the annual scheduled Series 2018A Installment Payments and all current parity obligations payable from Net Water Revenues.

Table 2
PALMDALE WATER DISTRICT
Outstanding Parity Debt Schedule⁽¹⁾

<i>Period Ending (October 1)</i>	<i>Series 2018A* Installment Payments</i>	<i>Parity Obligations⁽²⁾</i>	<i>Total*</i>
2018		\$ 3,899,672	
2019		3,898,019	
2020		3,898,331	
2021		3,899,758	
2022		3,812,031	
2023		3,719,399	
2024		3,851,375	
2025		3,851,025	
2026		3,855,525	
2027		3,849,275	
2028		3,852,525	
2029		3,854,525	
2030		3,855,375	
2031		3,852,900	
2032		3,848,900	
2033		3,852,900	
2034		3,854,150	
2035		1,182,400	
2036		1,184,200	
2037		1,184,600	
2038		1,183,600	
2039		1,186,200	
2040		1,187,200	
2041		1,186,600	
2042		1,184,400	
2043		1,185,600	
2044		-	
2045		-	
2046		-	
2047		-	
2048		-	
TOTAL		<u>\$ 76,170,484</u>	

* Preliminary, subject to change.

(1) Rounded to the nearest dollar.

(2) Reflects scheduled Parity Payments. See the caption "INTRODUCTION—Sources of Payments for the 2018A Bonds."
Source: The District and the Underwriter.

SECURITY FOR THE 2018A BONDS

General

Pursuant to the Indenture, the Authority, for good and valuable consideration, will unconditionally grant, transfer and assign to the Trustee, without recourse, all its rights to receive the Revenues (as defined in the Indenture) and to enforce the Installment Purchase Agreement, upon an event of default thereunder for the

benefit of the Owners of the 2018A Bonds, for the purpose of securing: (a) the payment of all sums due and owing to the Owners of the 2018A Bonds under the terms of the Indenture; and (b) the observance, performance and discharge of each agreement, condition, covenant and term of the District contained in the Installment Purchase Agreement.

The 2018A Bonds are limited obligations of the Authority. The 2018A Bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the Indenture. Revenues consist primarily of Series 2018A Installment Payments received from the District pursuant to the Installment Purchase Agreement.

The 2018A Bonds do not constitute a charge against the general credit of the Authority. The 2018A Bonds are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts except for Revenues pledged under the Indenture which includes the Series 2018A Installment Payments under the Installment Purchase Agreement. Neither the faith and credit nor the taxing power of the State or any public agency thereof, including the District and any other member of the Authority, is pledged to the payment of the principal amount or redemption price of, or interest on, the 2018A Bonds. The Authority has no taxing power. The 2018A Bonds do not constitute a debt, liability or obligation of the State or any public agency thereof (other than the Authority) or any member of the Authority.

Pledge of Water Revenues

All Water Revenues and all amounts on deposit in the Water Revenue Fund and the Rate Stabilization Fund will be irrevocably pledged by the District to the payment of the Series 2018A Installment Payments as provided in the Installment Purchase Agreement. The District will further covenant not to use Water Revenues for any other purpose while any of the Series 2018A Installment Payments remain unpaid; provided that out of the Water Revenues and amounts on deposit in the Water Revenue Fund there may be apportioned such sums for such purposes as are expressly permitted in the Installment Purchase Agreement, including payment of the Parity Payments. Such pledge, together with the pledge created by all other Bonds and Contracts, constitutes a first lien on Water Revenues and the Water Revenue Fund and all amounts on deposit therein as permitted in the Installment Purchase Agreement and subject to the application of Water Revenues in accordance with the terms hereof. Under the Installment Purchase Agreement, the term "Bonds" means all revenue bonds or notes of the District authorized, executed, issued and delivered by the District, the payments of which are on a parity with the Series 2018A Installment Payments and which are secured by a pledge of and lien on the Water Revenues, including the 2013 Bonds, and the term "Contracts" means the Installment Purchase Agreement and any amendments and supplements thereto, and all contracts of the District authorized and executed by the District, the Installment Payments or payments under which are on a parity with the Series 2018A Installment Payments and which are secured by a pledge and lien on the Water Revenues, including the 2012 Installment Payments and the 2017 Installment Payments. The term "Contracts" does not include the contracts with the State of California for the State Water Project, including the State Water Supply Contract.

The obligation of the District to make the Series 2018A Installment Payments is a special obligation of the District payable solely from Net Water Revenues of the Water System of the District, and does not constitute a debt of the District or of the State of California or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

The obligation of the District to make the Series 2018A Installment Payments from Net Water Revenues is absolute and unconditional, and until such time as all of the Series 2018A Installment Payments have been paid in full (or provision for the payment thereof has been made pursuant to the Installment Purchase Agreement), the District will not discontinue or suspend any Series 2018A Installment Payments required to be made by it under the Installment Purchase Agreement when due, whether or not the Water System or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments are not subject to reduction

whether by offset or otherwise and are not conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

As defined in the Installment Purchase Agreement, the term “Water Revenues” means, for any fiscal year, all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the District’s Water System, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the District from the sale, furnishing and supplying of the water or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, plus (2) proceeds of the District’s share of the County’s 1% property tax received by the District, if any, plus (3) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, or other moneys, including District reserves and the Reserve Fund, plus (4) the proceeds of any stand by or water availability charges collected by the District, but excluding in all cases customer deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the District, and excluding any proceeds of any taxes or assessments required by law to be used by the District to pay bonds heretofore or hereafter issued and any assessments levied and collected by the District to pay any contract payments due under the State Water Supply Contract (as hereinafter defined), plus (5) money withdrawn from the Rate Stabilization Fund in such fiscal year, minus (6) any Revenues transferred to the Rate Stabilization Fund in such fiscal year.

As defined in the Installment Purchase Agreement, the term “Operation and Maintenance Costs” means the reasonable and necessary costs paid or incurred by the District for maintaining and operating the Water System of the District, determined in accordance with generally accepted accounting principles, including any water purchase costs (exclusive of any recovered amount from the State of California’s Department of Water Resources in accordance with the State Water Supply Contract) and all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Water System of the District in good repair and working order, and including all administrative costs of the District that are charged directly or apportioned to the maintenance and operation of the Water System of the District, such as salaries and wages of employees, overhead, insurance, taxes (if any) and insurance premiums, and including all other reasonable and necessary costs of the District or charges required to be paid by it to comply with the terms of the Installment Purchase Agreement and other Bonds and Contracts, such as compensation, reimbursement and indemnification of the Trustee; excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature, all capital charges, and any contract payments due under the State Water Supply Contract paid from the proceeds of any assessments levied and collected by the District to pay contract payments due under the State Water Supply Contract.

Net Water Revenues means, for any fiscal year of the District (currently, the District’s fiscal year begins January 1 and ends on December 31), Water Revenues remaining after payment of Operation and Maintenance Costs. See Appendix B—“DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS” under the caption “INSTALLMENT PURCHASE AGREEMENT—Definitions; Rules of Construction; Contents of Certificates and Opinions.”

The obligation of the District to make the Series 2018A Installment Payments from Net Water Revenues is payable on a parity with the obligation of the District to make Parity Payments. See the caption “INTRODUCTION—Sources of Payments for the 2018A Bonds.”

Upon the defeasance of the Parity Installment Purchase Agreements, the definition of Water Revenues will be revised as follows:

“For any Fiscal Year, all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the District’s Water System, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the District from the sale, furnishing and supplying of the water or other services, facilities, and

commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, plus (2) proceeds of the District's share of the County's 1% property tax received by the District, if any, plus (3) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, or other moneys, including District reserves and the Reserve Fund, plus (4) the proceeds of any stand by or water availability charges collected by the District, but excluding in all cases customer deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the District, and excluding any proceeds of any taxes or assessments required by law to be used by the District to pay bonds heretofore or hereafter issued and any assessments levied and collected by the District to pay any contract payments due under the State Water Supply Contract, plus (5) money withdrawn from the Rate Stabilization Fund in such Fiscal Year."

THE OBLIGATION OF THE DISTRICT TO MAKE THE SERIES 2018A INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM NET WATER REVENUES OF THE DISTRICT AND CERTAIN OTHER AMOUNTS DESCRIBED IN THE INSTALLMENT PURCHASE AGREEMENT, AND DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT THAT THE DISTRICT IS OBLIGATED TO PAY FROM ANY OTHER DISTRICT REVENUES OR TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE DISTRICT TO MAKE THE SERIES 2018A INSTALLMENT PAYMENTS UNDER THE INSTALLMENT PURCHASE AGREEMENT DOES NOT CONSTITUTE A DEBT OF THE DISTRICT OR OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

If the District defaults on its obligation to make the Parity Payments, the Trustee has the right to accelerate the entire principal amount of the unpaid Series 2018A Installment Payments and the accrued interest thereon, the entire principal amount of the unpaid Parity Payments and the accrued interest thereon. However, in the event of a default and such acceleration of the Series 2018A Installment Payments or the Parity Payments there can be no assurance that the District will have sufficient Net Water Revenues to pay the accelerated Series 2018A Installment Payments or the accelerated Parity Payments.

Allocation of Water Revenues

In order to carry out and effectuate the pledge and lien contained in the Installment Purchase Agreement, the District will agree and covenant in the Installment Purchase Agreement that all Water Revenues shall be received by the District in trust and shall be deposited when and as received in the Water Revenue Fund which fund the District has previously established and agrees and covenants to maintain and to hold separate and apart from other funds so long as any Series 2018A Installment Payments, Contracts or Bonds remain unpaid. Moneys in the Water Revenue Fund shall be used and applied by the District as provided in the Installment Purchase Agreement.

The District shall, from the moneys in the Water Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable. All remaining moneys in the Water Revenue Fund shall be set aside by the District to make the Series 2018A Installment Payments and any payments on a parity therewith, including the Parity Payments, and at the following times in the following respective special funds in the following order of priority and all moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes as follows:

(a) Bond Payment Fund. On or before each Series 2018A Installment Payment Date, the District shall, from the moneys in the Water Revenue Fund, transfer to the Trustee for deposit in the Bond Payment Fund a sum equal to the Series 2018A Installment Payment coming due on such Series 2018A Installment Payment Date. The District shall also, from the moneys in the Water Revenue Fund, transfer to the applicable

trustee or payee for deposit in the applicable payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service or payments, including the Parity Payments, in accordance with the provisions of any Contract, Bond, resolution or indenture relating thereto. No deposit need be made in the Bond Payment Fund for any Series 2018A Installment Payment if the amount in the Bond Payment Fund is at least equal to the amount of the Series 2018A Installment Payment due and payable on the next succeeding Series 2018A Installment Payment Date. All money in the Bond Payment Fund shall be used and withdrawn by the Trustee in accordance with the Indenture.

(b) Reserve Fund. On or before each payment date required pursuant to the provisions of any Contract or Bond, or any resolution or indenture related thereto, the District shall, from the remaining moneys in the Water Revenue Fund, thereafter, without preference of priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the Trustee for deposit to the Reserve Fund and to the applicable trustee for deposit to any reserve fund or account for other Bonds or Contracts the amount, if any, needed to increase the balance in such fund or account to the amount required to be deposited therein (including any reimbursement due to the provider of the Reserve Surety Policy and any provider or providers of any other debt service reserve policies).

(c) Subordinate Obligations. On or before the payment of principal or interest is due with respect to any Subordinate Obligations, the District shall from moneys in the Water Revenue Fund, transfer to the applicable trustee or payee for deposit in the applicable payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without discrimination or preference, payment on such Subordinate Obligations, in accordance with the provisions of such Subordinate Obligations.

(d) Surplus. On the last day of each month, moneys on deposit in the Water Revenue Fund not required to make any of the payments required above may be expended by the District at any time for any purpose permitted by law, including but not limited to the deposit of amounts in the Rate Stabilization Fund in accordance with the Installment Purchase Agreement.

Rate Covenant

The District will covenant in the Installment Purchase Agreement, to the fullest extent permitted by law, to fix, prescribe and collect Water Revenues for Water Service which will be at least sufficient to yield during each fiscal year Net Water Revenues equal to one hundred ten percent (110%) of Debt Service and one hundred percent (100%) of Policy Costs due with respect to any reserve surety policies funding reserve funds for Bonds and Contracts, including the 2018A Bonds. The District may make adjustments from time to time in such Water Revenues and may make such classification thereof as it deems necessary, but shall not reduce the Water Revenues then in effect unless the Net Water Revenues from such reduced Water Revenues will at all times be sufficient to meet the foregoing requirements.

Reserve Fund

The Insurer has made a commitment to issue, simultaneously with the initial execution and delivery of the 2018A Bonds, the Reserve Surety Policy in the amount of \$_____ for deposit in the Reserve Fund, effective as of the date of issuance of the 2018A Bonds. Under the terms of the Reserve Surety Policy, the Insurer will unconditionally and irrevocably guarantee to pay that portion of the scheduled payments of principal of and interest on the 2018A Bonds that becomes due for payment but shall be unpaid by reason of nonpayment by the Authority.

See Appendix B—“DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS” for further information with respect to the Reserve Surety Policy.

Rate Stabilization Fund

The Installment Purchase Agreement continues the existence of a special fund designated as the “Rate Stabilization Fund” which is held by the District in trust. The District will covenant to maintain and to hold the Rate Stabilization Fund separate and apart from other funds so long as any Series 2018A Installment Payments remain unpaid. Money transferred by the District to the Rate Stabilization Fund, if any, in accordance with the Installment Purchase Agreement will be held in the Rate Stabilization Fund and applied in accordance with the Installment Purchase Agreement.

The District may withdraw all or any portion of the amounts on deposit in the Rate Stabilization Fund and transfer such amounts to the Water Revenue Fund for application in accordance with the Installment Purchase Agreement or, in the event that all or a portion of the Series 2018A Installment Payments are discharged in accordance with the Installment Purchase Agreement, transfer all or any portion of such amounts for application to the payment of the Series 2018A Installment Payments in accordance with the Installment Purchase Agreement. The District may also use moneys in the Rate Stabilization Fund to make Parity Payments. The District had approximately \$488,000 on deposit in the Rate Stabilization Fund as of June 1, 2018.

Upon the defeasance of the Parity Installment Purchase Agreements, the definition of Water Revenues will be revised as described under the caption “—Pledge of Water Revenues” above so as to not subtract revenues transferred to the Rate Stabilization Fund in the applicable Fiscal Year when calculating the amount of Water Revenues. See Appendix B under the caption “DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS—INSTALLMENT PURCHASE AGREEMENT—DEFINITIONS—Water Revenues.”

Additional Bonds and Contracts

The District may at any time execute any Contract or issue any Bonds, as the case may be, payable from Net Water Revenues on a parity with the Series 2018A Installment Payments and Parity Payments; provided there shall be on file with the District either:

(a) A Certificate of the District demonstrating that, during the last audited fiscal year or any consecutive twelve (12) calendar month period during the immediately preceding eighteen (18) calendar month period, the Net Water Revenues were at least equal to 110% of Maximum Annual Debt Service and one hundred percent (100%) of any Policy Costs, including for purposes of said calculation the Contracts proposed to be executed or the Bonds proposed to be issued and excluding any Contracts or Bonds to be defeased with the proceeds of the Contracts or Bonds to be executed; provided, that for the purpose of providing this Certificate, the District may adjust the foregoing Net Water Revenues to reflect:

(i) An allowance for Net Water Revenues that would have been derived from each new connection to the Water System that, during all or any part of such fiscal year or twelve (12) calendar month period, was not in existence, in an amount equal to the estimated additional Net Water Revenues that would have been derived from each such connection if it had been made prior to the beginning of such fiscal year or twelve (12) calendar month period, and

(ii) An allowance for Net Water Revenues that would have been derived from any increase in the rates, fees and charges fixed and prescribed for Water Service which, during all or any part of such fiscal year or twelve (12) calendar month period, was not in effect, in an amount equal to the estimated additional Net Water Revenues that would have been derived from such increase in rates, fees and charges if it had been in effect prior to the beginning of such fiscal year or twelve (12) calendar month period; or

(b) A Certificate of the District or an Engineer’s Report demonstrating that the estimated Net Water Revenues for each of the five (5) fiscal years next following the earlier of (i) the end of the period during which interest on the Contracts proposed to be executed, or the Bonds proposed to be issued is to be

capitalized or, if no interest is capitalized, the fiscal year in which the Contracts proposed to be executed, or the Bonds proposed to be issued, are executed or issued, or (ii) the date on which substantially all Projects financed with the Contracts proposed to be executed, or the Bonds proposed to be issued, plus all Projects financed with all existing Contracts and Bonds are expected to commence operations, will be at least equal to 110% of the Maximum Annual Debt Service and one hundred percent (100%) of any Policy Costs for such period; provided, that the foregoing estimated Net Water Revenues may be adjusted to reflect:

(i) An allowance for Net Water Revenues that are estimated to be derived from any increase in the rates, fees and charges for Water Service in effect and being charged or from any increase in the rates, fees and charges for Water Service that are expected to be charged; and

(ii) An allowance for Net Water Revenues that are estimated to be derived from customers of the Water System anticipated to be served by the additions, betterments or improvements to the Water System to be financed by the Contracts proposed to be executed, or the Bonds proposed to be issued, together with any additional Contracts and Bonds expected to be executed or issued during such five (5) year period.

(c) No event of default, or event which with the passage of time would constitute an event of default, shall exist under the Installment Purchase Agreement.

Notwithstanding the foregoing provisions, the District may at any time issue bonds and contracts the payment of which are subordinate to Bonds and Contracts and which are subordinate to the payment by the District of the Series 2018A Installment Payments and the Parity Payments.

Notwithstanding the foregoing provisions, the District may issue refunding Bonds and execute Contracts for the purpose of refunding any Bond or Contract without complying with the parity requirements set forth above; provided that the Debt Service payable by the District for each fiscal year with respect to such refunding Contracts or Bonds is less than or equal to 105% of the Debt Service for each corresponding fiscal year for such Contracts or Bonds being refunded.

Notwithstanding the foregoing provisions, the District shall not execute any Contracts or issue any Bonds, as the case may be, that are payable from or secured by a pledge of and lien on Water Revenues and any money in the Water Revenue Fund superior to the pledge securing the Series 2018A Installment Payments.

With the exception of the Recharge Project and the Capital Projects discussed under the heading "THE WATER SYSTEM—Future Capital Projects," the District currently does not anticipate issuing any Bonds or executing any Contracts within the next five years that will be payable from Net Water Revenues on a parity with the Parity Payments and the Series 2018A Installments Payments.

BOND INSURANCE

The information under this caption has been prepared by the Insurer for inclusion in this Official Statement. None of the Authority, the District or the Underwriter makes any representation with respect to the accuracy or completeness thereof. Reference is made to Appendix F for a specimen of the Policy.

[TO COME FROM INSURER]

PALMDALE WATER DISTRICT

General

The Palmdale Irrigation District was formed in 1918 by a vote of the people for the principal purpose of supplying irrigation water to the 4,600 acres then contained in its boundaries. In 1973, the name of the

Palmdale Irrigation District was changed to Palmdale Water District by Resolution No. 73-3. The name was changed to eliminate public confusion; however, the District still operates as an “Irrigation District” as such term is defined in Division 11 of the California Water Code. Since its formation, the District has supplied domestic water to the residents within the District.

From the time of its formation until the early 1950’s, the area within the District continued to be primarily agricultural in nature. Transformation of the District from a basically agricultural area to an urban area occurred simultaneously with activation of Air Force Plant No. 42 in Palmdale and the increased utilization of Edwards Air Force Base during the early 1950’s. Agricultural use of water in the District steadily diminished to the point that only 51 acre-feet of agricultural water was supplied during 1965. After that year, irrigation demand, if any, was supplied from the District’s domestic system and effectively, thereafter, the District became an urban water system.

In 1962, when it became apparent that the District could contract for water from the State Water Project, inclusion privileges were extended to a large portion of the south Antelope Valley for the primary purpose of participating in the State’s Supplemental Water Program. As a result of this, the service area of the District was expanded during the latter part of 1962 and the early part of 1963 from approximately 7,000 acres to approximately 83,894 acres. The expanded service area includes the Littlerock Creek watershed area located in the Angeles National Forest. Exclusive of the area within the Angeles National Forest, the current service area of the District is approximately 42,806 acres. See “—Land and Land Use” below for additional information.

Land and Land Use

The District contains approximately 131 square miles of land in northeastern Los Angeles County, consisting of more than 30 non-contiguous areas scattered throughout the southern Antelope Valley and services a population of approximately 115,000 people. The District is partially located within the City boundaries with the remainder of its territory comprised of unincorporated areas of Los Angeles County. Approximately 97% of the District’s customers reside within the City. The urban areas of the District are substantially developed and the District expects to see additional future development occurring within its boundaries. The District serves an area in the high desert at elevations of 2,600 feet to 3,800 feet within the Antelope Valley.

The Antelope Valley and the Los Angeles Basin are the two major economic zones that influence the economic outlook for the District. The Antelope Valley encompasses over 3,000 square miles. It generally extends from the northern end of the San Gabriel Mountains northwards to Randsberg and Johannesburg in Kern County, and from the eastern region of Los Angeles and Kern Counties to the western end of the Tehachapi Mountains. The southern portion of the Antelope Valley is significantly urbanized and focused around the City, as well as the City of Lancaster. These cities accommodate nearly half of the Antelope Valley’s population and are located in the nearest proximity to the large metropolitan employment center of the Los Angeles Basin. The City encompasses approximately 106 square miles within the Antelope Valley and is located in the northeast area of Los Angeles County.

Population. Approximately 158,905 people reside in the City, and approximately 10,283,729 people reside in the County of Los Angeles. The County of Los Angeles is California’s most populous County with approximately 25.8% of the State’s population residing within its borders. The following chart illustrates the historical population growth in the City, County and the State.

Table 3
POPULATION ESTIMATES
2014-2018

<i>Year</i>	<i>City of Palmdale⁽¹⁾</i>	<i>Annual Change</i>	<i>Los Angeles County</i>	<i>Annual Change</i>	<i>State of California</i>	<i>Annual Change</i>
2014	157,628	0.71%	10,088,458	0.68%	38,568,628	0.87%
2015	158,644	0.64	10,149,661	0.61	38,912,464	0.89
2016	158,635	(0.01)	10,180,169	0.30	39,179,627	0.69
2017	158,658	0.01	10,231,271	0.50	39,500,973	0.82
2018	158,905	0.16	10,283,729	0.51	39,809,693	0.78

⁽¹⁾ The number of persons located within the District's boundaries is less than the population of the City. Approximately 115,000 people lived within the District's boundaries in 2017.

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

Local Economy

The most recent national recession which commenced in the late 2000s (the "Great Recession") adversely affected economic conditions in the Antelope Valley, including the District. Home prices within the District declined significantly during the Great Recession, though home prices stabilized in 2013 and have been increasing since. Foreclosure rates and unemployment levels greatly increased during the Great Recession, though such rates and levels have since returned to pre-recession levels. See APPENDIX G—"SUPPLEMENT INFORMATION CONCERNING THE CITY OF PALMDALE."

The adverse economic conditions during the Great Recession had a negative impact on the District, including increased delinquent accounts, a reduction in water accounts due to service terminations at properties in foreclosure, a decrease in property tax collections due to reduced property values, increased tax delinquencies and a decline in capital improvement fees paid to the District given the lack of new development in the District. However, the economic condition of the Antelope Valley population stabilized in 2013 and has been improving for the last several years.

Governance and Management

The District is governed by a 5-member Board of Directors (the "Board") that is elected to staggered four year terms by the registered voters in the District's five divisions. The current directors, their occupations and the expiration dates of their terms are set forth below.

<i>Director</i>	<i>Expiration of Term</i>	<i>Occupation</i>
Vincent Dino, President	2018	Retired
Kathy Mac Laren, Vice President	2020	Business Development
Joe Estes, Secretary	2018	Retired
Marco Henriquez, Treasurer	2020	Real Estate Broker
Robert E. Alvarado, Director	2020	Teacher

Day-to-day management of the District is delegated to the General Manager. Set forth below is a brief resume for each of the District's key staff members. The position of Assistant General Manager/Chief Operating Officer is currently vacant and the District is recruiting to fill the position.

Dennis D. LaMoreaux, General Manager/Chief Executive Officer. Mr. LaMoreaux, the District's General Manager, was initially employed by the District from March 1989 until March 2008 and was rehired in January 2010. Originally hired as the Assistant Engineer-Manager, he was promoted to General Manager in

September 1994. His responsibilities are chiefly to oversee the day-to-day District operations and implementation of Board policies. His previous employment was with private consulting firms in California and Wyoming where he was involved in design and inspection of projects. He is licensed as a Civil Engineer in California who graduated from the University of Wyoming with a B.S. Degree in Civil Engineering in 1984.

Michael A. Williams, Sr., Finance Manager/Chief Financial Officer. Mr. Williams began his employment with the District in October 2006. He was originally hired as the Finance and Services Manager and in October 2008, his title was changed to Finance Manager. In his current capacity as Finance Manager, his primary duties are to oversee the Finance department. Prior to his employment with the District, he served as Assistant Chief Administrative Officer/Finance Director for the City of Maywood. He was employed twenty years with the City of Maywood. Mr. Williams majored in Finance at Regis University.

Robert M. Egan, C.P.A., Financial Consultant. Mr. Egan has been associated with the District since 1987. He assists District personnel in all aspects of financial accounting and reporting, as well as annual budgeting. He is a member of the District Finance Committee and has advised on the investment of District funds since 1987. He is the founding Partner of Egan & Egan Certified Public Accountants, a firm that audits many water districts, as well as other business entities in a variety of industries. Mr. Egan has a B.S. in Accounting, an M.S. in Tax and has taught accounting in the Los Angeles Community College District for thirty years.

Powers

The District has broad general powers over the use of water within its boundaries, including the right of eminent domain and the authority to acquire, control, distribute, store, spread, sink, treat, purify, reclaim, recapture and salvage any water for beneficial use, to acquire, construct and operate facilities for the collection, treatment, and disposal of waste and storm water, to sell and deliver potable or nonpotable water, to contract with the United States, other public agencies, private corporations, or other persons and, subject to constitutional limitations, to levy assessments, taxes and standby charges.

Employees

The District currently employs 86 persons, of whom 52 work in the Facilities, Operations and Engineering departments and 34 work in the Administration or Finance departments. Currently, the District's labor force is not represented by a union. The District has never experienced a strike, slow down or work stoppage.

Pension Benefits

This caption contains certain information relating to the California Public Employees Retirement System ("CalPERS"). The information is primarily derived from information produced by CalPERS, its independent accountants and its actuaries. The District and the Underwriter have not independently verified the information provided by CalPERS and make no representations nor express any opinion as to the accuracy of the information provided by CalPERS.

The comprehensive annual financial reports of CalPERS are available on its Internet website at www.calpers.ca.gov. The CalPERS website also contains CalPERS' most recent actuarial valuation reports and other information concerning benefits and other matters. The textual reference to such Internet website is provided for convenience only. None of the information on such Internet website is incorporated by reference herein. The District and the Underwriter cannot guarantee the accuracy of such information. Actuarial assessments are "forward-looking" statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future.

CalPERS Plan. The District contributes to CalPERS, an agent multiple-employer public employee defined benefit pension plan for all of the District's full-time and certain of its temporary employees that have worked for the District for a total of over 1,000 hours. CalPERS provides retirement, disability and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State, including the District.

CalPERS plan benefit provisions and all other requirements are established by State statute and the District's Board of Directors. The District's employees participate in one of two plans depending upon their date of hire. Employees hired prior to January 1, 2013 participate in the Classic Tier 1 plan and employees hired after that date participate in the PEPPRA Tier 2 plan. The benefits of each plan are summarized below:

The District is required to contribute at an actuarially determined rate applied to annual covered payroll. The District's contribution for the Fiscal Years ended December 31 ("Fiscal Year"), 2016 and 2017 were \$802,372 and \$713,037, respectively. The District's contribution for Fiscal Year 2018 is projected to be \$685,288.

For Fiscal Years 2016 and 2017, the District's annual pension contribution (the "ARC"), as determined by an actuarial valuation, was \$1,207,947 and \$1,185,559, respectively. The District currently projects its annual required contribution in Fiscal Year 2018 to be approximately \$1,253,788 (assuming that the District elects the lump sum payment option).

In June 2012, the Governmental Accounting Standards Board ("GASB") approved new standards (GASB Statement No. 68, or "GASB 68") with respect to pension accounting and financial reporting for state and local governments and pension plans. The changes impact the accounting treatment of pension plans in which state and local governments participate. Major changes include: (i) the inclusion of unfunded pension liabilities on the government's balance sheet (previously, such unfunded liabilities were typically included as notes to the government's financial statements); (ii) more components of full pension costs will be shown as expenses regardless of actual contribution levels; (iii) lower actuarial discount rates will be required to be used for unfunded plans in certain cases for purposes of the financial statements; (iv) closed amortization periods for unfunded liabilities will be required to be used for certain purposes of the financial statements; and (v) the difference between expected and actual investment returns will be recognized over a closed five-year smoothing period. The reporting requirements for pension plans for government employers took effect in Fiscal Year 2015. Based on the adoption of the new accounting standard, beginning with the Fiscal Year 2015 actuarial valuation, the ARC and the annual pension expense will be different. GASB 68 is a change in accounting reporting standards, but it does not change the District's CalPERS plan funding obligations. For additional information relating to the District's plan, see Note 10 to the District's audited financial statements for Fiscal Year 2017 attached to this Official Statement as Appendix A.

A summary of principal assumptions and methods used to determine the total pension liability as of June 30, 2017 is shown below.

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry age and service
Investment Rate of Return	7.50% net of pension plan investment and administrative expenses; includes projected inflation rate of 2.75%
Mortality Rate Table ⁽¹⁾	Derived using CalPERS' membership data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies; 2.75% thereafter

⁽¹⁾ The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

Source: The District.

Funding of CalPERS Plan. The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded accrued liability to payroll.

TABLE 4
PALMDALE WATER DISTRICT
Schedule of Funding Progress
(In Thousands)
2013-2017

<i>Valuation Date</i>	<i>Accrued Liability</i>	<i>Market Value of Assets</i>	<i>Unfunded Liability</i>	<i>Funded Ratio</i>	<i>Annual Covered Payroll</i>
06/30/13	\$28,645,821	\$22,203,797	\$6,442,024	77.5%	\$5,651,206
06/30/14	31,808,701	25,990,381	5,818,320	81.7	5,600,973
06/30/15	34,199,589	26,923,797	7,275,792	78.7	5,805,337
06/30/16	35,580,180	26,984,691	8,685,489	75.6	6,778,010
06/30/17	39,818,738	29,737,078	10,081,660	75.6	6,419,341

Source: The District.

In the Statement of Net Position as of December 31, 2017, the District has a net pension liability of approximately \$10.1 million, computed in accordance with GASB 68. The District's net pension liability, computed in accordance with GASB 68 (as further discussed below), for the year ended December 31, 2017, was as follows (in millions):

Net Pension Liability (Asset) (Beginning of Year)	\$ 8.685
Increase (Decrease) in Net Pension Liability	\$ 1.396
Net Pension Liability (Asset) (End of Year)	\$10.081

Source: The District.

The following table summarizes the District's pension contributions for the last five Fiscal Years:

TABLE 5
PALMDALE WATER DISTRICT
Annual Pension Cost (Employer Contributions)
(In Thousands)
2013-2017

<i>Fiscal Year</i>	<i>Employer Contribution</i>	<i>District-Funded Employee Contribution</i>	<i>Employee Contribution</i>	<i>Annual Pension Cost</i>	<i>Percentage of Annual Pension Cost Contributed</i>	<i>Net Pension Asset</i>
2013	\$722,206	\$398,586	\$ 2,262	\$1,123,054	100%	\$22,203,797
2014	748,566	387,452	18,347	1,154,365	100	26,027,538
2015 ⁽¹⁾	829,309	294,894	143,052	1,267,255	100	27,043,912
2016	949,476	258,471	188,830	1,396,777	100	27,029,174
2017	1,036,733	148,826	314,675	1,500,234	100	N/A

⁽¹⁾ Differences from prior years reflect new GASB standards described above.

Source: The District.

Other Post-Employment Benefits

Other Post-Employment Benefits.

Plan Description – Eligibility. The District administers its post-employment benefits plan, a single-employer defined benefit plan ("Plan"). The following requirements must be satisfied in order to be eligible for the post-employment medical, dental and vision benefits: (1) attainment of age 55, and 20 years for full-time service with the District and (2) retirement from the District (the District must be the last employer prior to retirement).

Membership in the OPEB plan consisted of the following members as of December 31:

	<i>2015</i>	<i>2016</i>	<i>2017</i>
Active plan members	85	85	82
Retirees and beneficiaries receiving benefits	<u>15</u>	<u>15</u>	<u>16</u>
Total plan membership	<u>100</u>	<u>100</u>	<u>98</u>

Plan Description – Benefits. The District offers post-employment medical, dental and vision benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any plan available through the Association of California Water Agencies – Joint Power Insurance Authority ("ACWA-JPIA") medical, dental and vision programs. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors. OPEB benefits do not sunset when a retiree becomes eligible for Medicare.

Funding Policy. The District is required to contribute the Annual Required Contribution ("ARC") of the Employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of not to exceed thirty years. The current ARC rate is 24.1% for 2017 and was 14.7% for 2016 of the annual covered payroll.

The District currently pays 100% of the cost of the post-employment benefit plan on a pay-as-you-go basis and expects to continue to do so.

Annual Cost. For the years ended December 31, 2017 and 2016, the District's adjusted ARC cost was \$1,532,521 and \$2,194,794, respectively. The District's net OPEB payable obligation amounted to \$14,271,430 and \$13,107,674 for the years ended December 31, 2017 and 2016, respectively. The District contributed \$368,766 and \$322,420 in age adjusted contributions for current retiree OPEB premiums for the years ended December 31, 2017 and 2016, respectively. Information for 2015 is also set forth in the table below.

	2015	2016	2017
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 2,350,322	\$ 2,350,322	\$ 1,682,759
Interest on net OPEB obligation	186,657	224,706	327,692
Adjustment to annual required contribution	<u>(315,847)</u>	<u>(380,234)</u>	<u>(477,929)</u>
Total annual OPEB expense	2,221,132	2,194,794	1,532,521
Change in net OPEB payable obligation:			
Age adjusted contribution made	<u>(318,694)</u>	<u>(322,420)</u>	<u>(368,766)</u>
Total change in net OPEB payable obligation	1,902,438	1,872,374	1,163,755
OPEB payable – beginning of year	<u>9,332,862</u>	<u>11,235,300</u>	<u>13,107,670</u>
OPEB payable – end of year	<u>\$11,235,300</u>	<u>\$13,107,674</u>	<u>\$ 14,271,430</u>
Percentage of Annual OPEB Cost Contributed	14.5%	14.7%	24.1%

Funded Status and Funding Progress of the Plan.

The most recent valuation includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$20,240,870. There are no plan assets because the District funds on a pay-as-you-go basis and maintains net assets equal to the remaining net post-employment benefits payable obligation. The covered payroll (annual payroll of active employees covered by the plan) for the years ended December 31, 2017 was \$7,388,637. The ratio of the unfunded actuarial accrued liability to annual covered payroll was 273.95% as of December 31, 2017.

Actuarial Methods and Assumptions. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	December 31, 2017
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Asset valuation method	30 year smoothed market
Actuarial assumptions:	
Investment Rate of Return	2.00%
Projected salary increase	1.90
Inflation discount rate	2.00
Health care trend rate	3.00

Budget Process

The District operates on a calendar year basis. Historically, prior to the closing of each calendar year a tentative budget is proposed by the District's General Manager based on the previous year's revenues and expenses, taking into account growth within the District and inflationary factors. The preliminary budget is then presented to the Board of Directors for their approval and the final budget is normally adopted before the close of the calendar year. The Board approved the District operating budget for the 2018 calendar year on November 8, 2017.

The District's budget is prepared on the accrual basis. For budgeting purposes, the District generally sets user charges to cover operating expenses of the District, including certain transportation charges assessed by the State of California's Department of Water Resources ("DWR"), and sets ad valorem assessments to pay for other expenses arising from the contract between the District and DWR relating to the State Water Project. In addition, the District sets its capital improvement fee amounts to finance capital projects. See "SYSTEM FINANCIAL INFORMATION" herein for a detailed description of the District's various rates, assessments and fees. For a discussion of current and potential limitations on the District's ability to maintain or increase taxes, fees and other charges, including such fees and other charges as may be limited by the terms of Proposition 218. See "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218" herein. See also APPENDIX A—"AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR YEAR ENDING DECEMBER 31, 2017."

Insurance

The District maintains general liability and automotive liability and public officials liability (errors and omissions) insurance through the Association of California Water Agencies - Joint Powers Insurance Authority ("ACWA-JPIA") with limits of \$60,000,000. The District's self-insured retention amount for the general and auto liability coverage is \$25,000. The District maintains employee dishonesty coverage of up to \$100,000 per loss, which includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage. The District maintains replacement property insurance coverage through ACWA-JPIA with a \$100,000 deductible per occurrence, with \$500,000,000 maximum per claim amount and no maximum annual coverage amount. The District maintains boiler and machinery insurance coverage for the replacement cost of up to \$100,000,000, subject to various deductibles depending on the type of equipment. The District maintains public officials' personal liability coverage of up to \$100,000 for each occurrence, with an annual maximum of \$100,000 per each elected/appointed official to which this coverage applies and is subject to certain terms and a \$1,000 deductible per claim. The District also maintains worker's compensation insurance with ACWA-JPIA, with statutory limits and employers' liability coverage with limits of \$4,000,000. The District does not currently carry insurance to cover the Littlerock Dam, which retains water in a reservoir, one of the District's primary water storage facilities. The District carries earthquake insurance on its headquarters building, and the contents therein, in an amount up to \$3,000,000, and business and interruption insurance in an amount up to \$6,000,000. In addition, ACWA/JPIA provides cyber liability coverage up to \$3,000,000 per occurrence through the commercial liability policy for participating members of the general liability pool program.

Seismic Consideration

The District is located near two seismically active faults: the San Andreas Fault located along the base of the San Gabriel Mountains and the Garlock Fault, located along the Tehachapi Mountains. The San Andreas Fault traverses the south central portion of the District's service area in roughly a northwest-southeast manner. The San Andreas Fault at this locale is actually a system of fault splays which include the Cemetery, the Littlerock and the Nadeau fault traces. In addition, there are several other regional faults near the District's service area, including the Sierra Madre fault, the White Wolf fault, and the Owens Valley fault. In the event of a major earthquake, the District believes that it could sustain ruptured pipelines or failures to facilities.

All facilities at the District have been designed in conformance with the Uniform Building Code standards for seismic Region 4 (the region of highest risk). In addition, storage tanks are designed based on site specific geotechnical engineering studies. The District also has incorporated certain precautions into its maintenance and construction practices to reduce impact on its facilities in the event of an earthquake. For example, rehabilitation of the Littlerock Dam was done in compliance with the standards set by the Division of Safety of Dams and all newly replaced pipeline segments are joined with rubber gasket joints for maximum flexibility. In addition, the District replaces and relines portions of old pipelines as part of its water system maintenance program. The District also maintains extra pipes and fittings in its inventory for use during an emergency. See “THE WATER SYSTEM” below.

Outstanding Indebtedness

In November 2012, the District caused to be executed and delivered its Refunding Revenue Certificates of Participation, Series 1998, payable from the 2012 Installment Purchase Agreement. Upon the issuance of the 2018A Bonds, the 2012 Installment Payments will be outstanding in the amount of \$6,893,157. In May 2013, the Authority issued its Water Revenue Bonds, Series 2013A (the “2013 Bonds”), which are secured by the 2013 Installment Payments. Upon the issuance of the 2018A Bonds, the 2013 Installment Payments will be outstanding in the amount of \$41,715,000. Upon the issuance of the 2018A Bonds, the 2017 Installment Payments will be outstanding in the amount of \$673,037.24. The 2012 Installment Payment due under the 2012 Installment Purchase Agreement, the 2013 Installment Payments due under the 2013 Installment Purchase Agreement, the 2017 Installment Payments due under the 2017 Installment Purchase Agreement and the Series 2018A Installment Payments are secured on a parity and payable from Net Water Revenues.

Upon the issuance of the 2018A Bonds, the Parity Installment Purchase Agreements will be the only outstanding indebtedness payable from Net Water Revenues on a parity with the Series 2018A Installment Payments. With the exception of debt that may be issued to finance the Palmdale Regional Groundwater Recharge and Recovery Project discussed under the heading “THE WATER SYSTEM—Future Capital Projects,” the District currently does not anticipate issuing any Bonds or executing any Contracts within the next five years that will be payable from Net Water Revenues on a parity with the Parity Payments and the Series 2018A Installment Payments.

The overlapping debt table of the District as of May 1, 2018 is set forth in Table 6 below.

**Table 6
PALMDALE WATER DISTRICT
OVERLAPPING BONDED DEBT**

As of May 1, 2018

2017-18 Land Only Assessed Valuation: \$1,811,065,738

OVERLAPPING TAX AND ASSESSMENT DEBT: (Based on all property valuation of \$6,279,536,818)

	<u>% Applicable</u>	<u>Debt 5/1/18</u>
Antelope Valley Joint Community College District	18.883%	\$ 53,551,939
Pasadena Area Community College District	0.002	1,542
Acton-Agua Dulce Unified School District	0.932	104,763
La Canada Unified School District	0.026	5,345
Antelope Valley Union High School District	21.423	12,645,970
Palmdale School District	65.298	70,015,668
Westside Union School District	0.861	514,168
Palmdale School District Community Facilities District No. 90-1	79.489	47,108,259
City of Palmdale Street Lighting Assessment Districts	51.883 – 69.119	7,499,366
Los Angeles County Regional Park and Open Space Assessment District	0.441	117,196
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$191,564,216

DIRECT AND OVERLAPPING GENERAL FUND DEBT:

Los Angeles County General Fund Obligations	0.441%	\$ 8,522,733
Los Angeles County Superintendent of Schools Certificates of Participation	0.441	28,666
Acton-Agua Dulce Unified School District Certificates of Participation	0.932	23,114
Palmdale School District Certificates of Participation	65.298	9,174,404
City of Palmdale Certificates of Participation	46.939	30,271,080
Palmdale Water District Certificates of Participation	100.00	49,177,288
Los Angeles County Sanitation District No. 14 Authority	0.125	1,969
Los Angeles County Sanitation District No. 20 Authority	63.370	832,345
Antelope Valley Hospital District General Fund Obligations	20.213	3,410,105
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$101,441,704

OVERLAPPING TAX INCREMENT DEBT:

Successor Agency to Palmdale Redevelopment Agency Merged Project Area	41.192%	\$30,135,009
TOTAL OVERLAPPING TAX INCREMENT DEBT		\$30,135,009

COMBINED TOTAL DEBT **\$323,140,929 (1)**

(1) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2017-18 Land Only Assessed Valuation:

Direct Debt (\$49,177,288)2.72%

Ratios to 2017-18 All Property Assessed Valuation:

Total Overlapping Tax and Assessment Debt3.05%

Combined Total Debt.....5.15%

Ratios to Redevelopment Incremental Valuation (\$485,916,554):

Total Overlapping Tax Increment Debt.....6.20%

Source: California Municipal Statistics, Inc.

District's Investment Policy

On December 13, 2017 the District adopted an updated Investment Policy to promote its stated objectives of (i) preserving principal through diversification, (ii) maintaining liquidity, and (iii) providing market rate of return throughout budgetary and economic cycles, taking into account risk constraints and the cash flow characteristics of the entire portfolio.

Under the current Investment Policy, investments are made in compliance with the Prudent Investor Rule and are governed by certain provisions of the California Government Code. Within the limitations imposed by the California Government Code, the District further restricts the types of investments and their maturities. Generally, permitted investments include: bonds issued by the District; United States Treasury Bills, Notes and Bonds, Federal agency or United States government-sponsored enterprise obligations, participations or other instruments; certificates of deposits not exceeding 40% of all money invested by the District pursuant to the Investment Policy; bonds, notes, warrants or other debt issued by a local agency within California, including pooled investment accounts established by the State of California, County Treasurer or other local agencies or joint powers agencies (including investments in the Local Agency Investment Fund); and monies held in trust pledged to the payment or security of bonds, or other indebtedness of a local agency. Under the Investment Policy, prohibited investments include inverse floaters, range notes, interest-only strips derived from a pool of mortgages or any investment that may result in zero interest accrual if held to maturity.

In addition, the Statement of Investment Policy provides certain guidelines for diversification of investments, liquidity goals, qualification of banks and securities dealers, and collateralization requirements for certain investments. While the District is currently required to adopt its Investment Policy annually, such requirement may be changed in the future and the investment guidelines may also be changed in the future.

The District's investments by category and their respective market value as of December 31, 2017 and March 31, 2018 are set forth in the table below. For additional information relating to the District's investments, see APPENDIX A—"AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR YEAR ENDING DECEMBER 31, 2017," Note 2.

Table 7
PALMDALE WATER DISTRICT
SUMMARY OF INVESTMENTS

<i>Investment Category</i>	<i>Market Value</i>	
	<i>12/31/17</i>	<i>3/31/18</i>
Federal Agency Obligations	\$ 6,836,426	\$ 6,827,623
Negotiable Certificates-of-Deposit	3,705,812	3,893,372
Local Agency Investment Fund (LAIF)	11,927	11,963
TOTAL	<u>\$ 10,554,165</u>	<u>\$ 10,732,958</u>

Source: The District.

The Investment Policy may be changed at any time at the discretion of the District (subject to the State law provisions relating to authorized investments) and as the California Government Code is amended. Any exception to the Investment Policy must, however, be formally approved by the Board of Directors of the District. There can be no assurance the State law or the Investment Policy will not be amended in the future to allow for investments which are currently not permitted under such State law or the Investment Policy, or that the objectives of the District with respect to investments will not change.

Unrestricted Reserves

The following chart illustrates the unencumbered reserves of the District for Fiscal Years 2008 through 2017. While the operating reserves may be allocated by the District to pay Parity Payments and Series 2018A Installment Payments, they are not pledged for such purpose. Such reserves may be utilized at any time for lawful expenditures by the District, and no assurance can be made that the reserves will be available to pay Parity Payments and Series 2018A Installment Payments.

Table 8
PALMDALE WATER DISTRICT
HISTORY OF UNRESTRICTED RESERVES
2008-2017

<i>Year</i>	<i>Cash and Cash Equivalents</i>	<i>Investments</i>	<i>Total Unrestricted Reserves</i>
2008	\$4,517,792	\$7,787,783	\$12,305,575
2009	6,356,129	760,312	7,116,441
2010	4,547,765	1,948,571	6,496,336
2011	5,263,244	2,538,275	7,801,519
2012	7,240,103	2,019,050	9,259,153
2013	8,481,773	3,734,701	12,216,474
2014	9,220,142	3,761,914	12,982,056
2015	7,835,005	4,408,985	12,243,990
2016	4,412,202	8,441,547	12,853,749
2017	3,864,465	10,554,164	14,418,629

Source: The District.

THE WATER SYSTEM

General Description

The District is the sole provider of potable water service to water users within its boundaries.

The District currently serves a population of approximately 115,000 people (through 27,399 connections), approximately 96% of whom are residential users. The District receives its water from three sources: (i) local groundwater, (ii) surface water from Littlerock Creek and the Santiago Canyon deposited in the Littlerock Dam and Reservoir, and (iii) imported water from the DWR through the State Water Project. As set forth in Table 9 below, the percentage of water received from each of these sources fluctuates depending on levels of rainfall year to year. The District uses Palmdale Lake to store water it receives from the Littlerock Dam and Reservoir and the State Water Project. Palmdale Lake has a storage capacity of 4,250 acre-feet. The District maintains Palmdale Lake at 100 percent of total capacity during the months of May through October and at 75 percent of capacity from November through April. The amount of water stored in Palmdale Lake is capable of supplying water to the District's customers for approximately two months in the event water from the State Water Project and Littlerock Dam and Reservoir is not available.

The District operates 24 active water wells which extract groundwater from the Antelope Valley Groundwater Basin (the "Antelope Basin"). The District also maintains 20 reservoirs ranging in individual capacity from 40,000 to 6,000,000 gallons with an aggregate storage capacity of 49.9 million gallons of water. Other District water system facilities include two interconnections between the District's water system and the facilities of the Antelope Valley – East Kern Water Agency and Littlerock Creek Irrigation District which can be utilized during emergencies to transfer water from one system to the other.

The District's water system includes seven pressure zones. The distribution system includes over 408 miles of pipelines ranging in size from 4 inches to 42 inches in diameter. The District also operates 24 active water wells and 14 booster pumping stations which contain a total of 43 separate pumps. See "—District Water Facilities" below for additional information.

The table below sets forth the history of sources and use of water for the District from its three sources: local groundwater, surface water, and imported water from the DWR through the State Water Project. The District also expects to expand its water supply by approximately 4,000 acre feet of groundwater in 2025 with the Recharge Project (as defined below) which includes construction of new facilities to deliver SWP water from the California Aqueduct along with recycled water from the Palmdale Water Reclamation Plant to surface spreading basins in the northeast portion of the City of Palmdale. See "—Local Groundwater" and "Future Capital Projects—Palmdale Regional Groundwater Recharge and Recovery Project." Quantities of water are expressed in terms of acre-feet. An acre-foot is the amount of water which will cover one acre to a depth of one foot and is equivalent to approximately 325,000 gallons.

Table 9
PALMDALE WATER DISTRICT
WATER SOURCE AND USE SUMMARY TABLE

<i>Calendar Year</i>	<i>Groundwater Production (ac.-ft.) (a)</i>	<u>Raw Surface Water Sources</u>		<i>Total Water Sources (ac.-ft.) (d)⁽¹⁾</i>	<u>Treated Surface Water Production</u>		<i>Total Water Production (ac.-ft.) (a+e)</i>	<i>Total Water Metered (ac.-ft.)⁽³⁾</i>	<i>Unaccounted for Water (ac.-ft.) (%)</i>	
		<i>Littlerock Reservoir (ac.-ft.) (b)</i>	<i>State Water Project (ac.-ft.) (c)</i>		<i>Yearly Total (ac.-ft.) (e)</i>	<i>Yearly Average⁽²⁾ (MGD) (f)</i>				
2013	9,378	1,600	11,265	22,243	12,221	11.2	21,599	19,635	1,964	9.1
2014	12,397	700	9,048	22,145	8,323	9.3	20,720	18,746	1,974	9.5
2015 ⁽⁴⁾	11,227	572	6,305	18,104	5,788	7.1	17,015	15,207	1,808	10.6
2016 ⁽⁴⁾	8,473	0	11,155	19,629	8,894	10.7	17,367	15,854	1,513	8.7
2017	4,335	965	15,044	20,364	14,310	16.7	18,665	17,337	1,328	7.1

⁽¹⁾ Difference between the annual Total Water Sources in column "(d)" and the Total Water Production column is primarily the result of water storage, reservoir replenishment and water lost due to environmental factors.

⁽²⁾ Column "f" reflects the average daily production from the water treatment plant (WTP) over each year. WTP production during summer months averages 16 million gallons per day (MGD). The WTP production capacity is 35 MGD.

⁽³⁾ Total includes the Antelope Valley East Kern Water Agency ("AVEK") pass-through water and water supplied to Littlerock Creek Irrigation District.

⁽⁴⁾ Due to dry conditions throughout the State, the Governor enacted mandatory water restrictions for all water agencies, including the District. See "FACTORS AFFECTING WATER SUPPLIES—California Drought and Response."

Source: The District.

Local Groundwater

Over the last five years, the District received an average of approximately 45% of its water supply from local groundwater, with a high of 62% and a low of 21% during this time. As described below, the District has various rights to groundwater which could provide the District with up to approximately 13,140 acre feet of groundwater per year.

Historically, the District's primary service area was supplied with groundwater pumped from deep wells. Natural recharge of the Antelope Valley Groundwater Basin (the "Basin") is achieved primarily from watershed areas in the San Gabriel Mountains. Creeks and streams spread runoff from precipitation in the mountains over alluvial fans on the northern slopes. Recharge of the area is limited by the semi-arid regional climate.

Groundwater supplies in the Antelope Valley have been determined to be overdrafted, which has resulted in litigation to adjudicate water rights in the Basin. In late 2015, the District as well as the majority of parties involved in such litigation agreed to a stipulated judgment for the adjudication of the Basin (the “Judgment”). Under the Judgment, the District will receive a groundwater production right to a fixed amount of water. Prior to the Judgment, the District had an unquantified right to pump water from the Basin for beneficial use, and assumed projected pumping volumes of approximately 12,000 acre feet per year. As a result of the Judgment, the District is required to reduce its groundwater production in equal installments annually beginning in 2018 until 2023 when it can thereafter pump 2,769.63 acre feet per year from the safe yield (as such term is described below). See “FACTORS AFFECTING WATER SUPPLIES—Antelope Valley Groundwater Basin” for further discussion of the Judgment.

Under the Judgment, the District is additionally entitled to a pumping allocation equal to 39.1% of the water the District used from the SWP in prior years either for direct use via the Leslie O. Carter Water Treatment Plant or for recharge at the proposed Palmdale Regional Groundwater Recharge and Recovery Project after it is recovered and used by customers (the “Return Flow Credit”). The District projects that the Return Flow Credit will provide approximately 4,000 acre feet per year upon completion of the Recharge Project. Any unused portion of the Return Flow Credit for a given year may be carried forward for use in future years. The District also projects that the Recharge Project (as defined below) will provide approximately an additional 4,000 acre feet of groundwater upon completion in 2025. See “—Future Capital Projects—Palmdale Regional Groundwater Recharge and Recovery Project” for a discussion of the Recharge Project.

In addition to the groundwater allocation and the Return Flow Credit, the District is further entitled under the Judgment to a share of the unused reserve right of the Federal Government relating to the Edwards Air Force Base, which is projected to be approximately 1,370 acre feet per year through at least 2025. The District’s right to this water will be reduced or terminated in the event that the Federal Government increases water usage at the base.

The District also receives the following benefits from the Judgment, all of which make its groundwater supply more reliable: (1) the right to pump additional groundwater if the District pays the cost to replace it with imported water, (2) the right to store water in the Basin in wet years for use in dry years, and (3) the right to purchase additional water rights from other pumpers in the Basin.

The District is a member of a joint powers authority called the Antelope Valley State Water Contractors Association (the “Association”). The other members of the Association are the Littlerock Creek Irrigation District and the Antelope Valley – East Kern Water Agency, the other two State Water contractors in the Antelope Valley. A principal goal of the Association is for the three members to work together to develop conjunctive use projects, including groundwater banking.

The District’s primary service area overlies three sub-units of the Basin – the Lancaster, Buttes and Pearland sub-units. In addition, the District overlies a portion of the San Andreas Rift Zone, which also contains water bearing deposits. The District presently pumps groundwater from 24 wells in the Lancaster and Pearland sub-units and from the San Andreas Rift Zone. In Phase 3 of the trial in the Basin’s adjudication, the court determined the safe yield for the Basin, including imported water return flows, was 110,000 acre-feet per year. The term “safe yield” is generally defined as the maximum rate of extraction from a groundwater basin which, if continued over an indefinite period of years, would result in the maintenance of certain desirable fixed conditions.

Groundwater from the District’s wells meets all current water quality requirements and is not treated, other than the addition of disinfectant prior to being pumped into the water distribution system. Recently updated regulations, such as the new and lower arsenic maximum contaminant level, will also be met without treatment. The only present potential known threat to the District’s groundwater quality is the presence of a plume of high nitrate levels in groundwater located approximately two miles northeast of the District’s main

well field that has resulted from the operation of the Sanitation Districts of Los Angeles County District No. 20 (the “Sanitation District”). The Sanitation District is currently under a Cleanup and Abatement Order from the Regional Water Quality Control Board, Lahontan Region, to fully identify and clean up the plume. The District’s wells are currently unaffected by the higher nitrate levels that exist in the plume.

Surface Water

Over the last five years, the District received an average of approximately 4% of its water supply from local surface water. The amount of local surface supply varies annually and has ranged from 0% to 7.2% in the last five years. Surface water in Littlerock Creek and the Santiago Canyon is fed by runoffs from a 65 square mile watershed in the Angeles National Forest. Water from the watershed is diverted into the Littlerock Dam which currently has a usable storage capacity of approximately 3,000 acre-feet of water. Construction of Littlerock Dam and Reservoir was completed in 1924 by the Palmdale Irrigation District, predecessor to the District, and the Littlerock Creek Irrigation District. Title to the Littlerock Dam and Reservoir is jointly held by the District and the Littlerock Creek Irrigation District. Pursuant to the Littlerock Dam Agreement, the District financed the rehabilitation of the Littlerock Dam and Reservoir in compliance with directions from the Division of Safety of Dams. In consideration of the District’s undertaking of all rehabilitation costs of the Littlerock Dam and Reservoir, the District was granted an irrevocable license to 100 percent of the storage capacity of the Littlerock Dam and Reservoir for a term of 50 years through 2042. Under the Littlerock Dam Agreement, the District is also responsible for the maintenance and operation of the Littlerock Dam and Reservoir, except as otherwise provided by such agreement. The average annual yield from the Littlerock Dam and Reservoir is estimated at 4,000 acre-feet per year. In 2017, the District received 965 acre-feet of water from the Littlerock Dam and Reservoir. Approximately \$8.1 million of proceeds of the 2018A Bonds will be used to make capital improvements which relate to the Littlerock Dam and Reservoir. See “THE PROJECT” herein.

State Water Project

Over the last five years, the District received an average of approximately 51% of its water supply from the State Water Project (“SWP”). The SWP encompasses a complex array of reservoirs, pumping plants, power plants, canals and tunnels owned and operated by DWR. SWP water, which originates primarily north of the San Francisco Bay/Sacramento-San Joaquin River Delta (the “Bay-Delta” or “Delta”), is transported from the Delta to serve water contractors and their member agencies in the San Francisco Bay area, the San Joaquin Valley and Southern California.

Pursuant to a Water Supply Contract, dated February 2, 1963, by and between the Palmdale Irrigation District, as predecessor to the District and DWR, as amended from time to time (as so amended, the “District’s State Water Supply Contract”), the District received entitlements to SWP water. Pursuant to the District’s State Water Supply Contract, the District is entitled to receive up to 21,300 acre-feet of SWP water each year. In 2017, the District received 15,044 acre-feet of water from the SWP, which includes its 2017 allocation, additional water supplied pursuant to a contract with Butte County, and a carryover allocation of water from 2016. The allocation of water made by DWR in 2017 was 85% of each State Water Contractor’s contract amount, but the District was able to supplement its supply through an agreement with Butte County to lease a portion of that County’s allocation. The District has a long term lease agreement with Butte County for 10,000 acre-feet per year of their SWP Table A Quantity (the “Butte County Agreement”). The amount available through the Butte County Agreement varies primarily on the final annual allotment from DWR to the State Water Contractors and can be roughly calculated by multiplying the final allotment percentage by 10,000 acre-feet. The Butte County Agreement runs through 2031 and has a renewal option through 2035. The District’s State Water Supply Contract, the Butte County Agreement and any other agreements to which the District is a party for SWP water and for which the District levies or will levy an assessment are collectively referred to herein as the “State Water Supply Contract.” The amount of water which DWR supplies to the District under the State Water Supply Contract may be reduced in any year in which there is a shortage or interruption, due to drought or other temporary cause, in the supply of water available for delivery to the District and other SWP

contractors. DWR reduces allotments where the available water supply is less than the total of the annual project allotments of all project participants in the SWP facilities for that year.

In the event that the State is unable to construct sufficient additional conservation facilities to prevent a reduction in the minimum SWP yield, or if for any other reason there is a reduction in the minimum SWP yield, which, notwithstanding preventative or remedial measures taken or to be taken by the State, threatens a permanent shortage in the supply of SWP water to be made available to the District under the State Water Supply Contract, the District's SWP allotment will be reduced in accordance with the State Water Supply Contract.

Pursuant to the District's State Water Supply Contract, the District is obligated to pay its allocable share of a capital cost component and a minimum operation, maintenance, power and replacement component (together, the "SWP Fixed Costs") of the SWP. In addition to the SWP Fixed Costs, the District pays a variable amount to the SWP from Net Water Revenues based on the amount of water that is purchased for delivery to the District each year. Such variable costs have averaged approximately \$2.14 million per year over the last five years. The obligation to pay the SWP Fixed Costs exists and is required to be honored by the District whether or not water is furnished to it from the SWP facilities at all times, or at all, and whether or not the SWP facilities are operable. Such costs of participation rights are being amortized over the District's water entitlement period through 2035. The District expects that the District's State Water Supply Contract will be extended beyond 2035. The table below sets forth the District's allocable share of the SWP Fixed Costs for the last five years:

Table 10
PALMDALE WATER DISTRICT
HISTORY OF SWP FIXED COSTS

<i>Year</i>	<i>Capital Cost Component</i>	<i>Minimum Fixed Operating Component</i>	<i>Total SWP Fixed Costs</i>
2013	\$3,835,620	\$720,125	\$4,555,745
2014	3,386,115	362,993	3,749,108
2015	4,575,111	125,715	4,700,826
2016	4,649,693	86,001	4,735,694
2017	4,497,113	26,070	4,523,183

Source: The District.

Under the State Water Supply Contract, DWR is obligated to deliver to the District on or before July 1 of each year a statement of the SWP Fixed Costs payable in the next calendar year. The District levies an *ad valorem* assessment on the assessed value of the land (not including the value of any improvements) within its service area to pay the SWP Fixed Costs charged for operation, maintenance, power and replacement costs payable under the State Water Supply Contract. These assessments are placed on the tax roll and collected as a part of the annual tax bills sent to the property owners within the District by Los Angeles County. Any assessments collected are available only to pay amounts due under the State Water Supply Contract and are not a part of Revenues of the District pledged to secure the Series 2018A Installment Payments or the Parity Payments. Any increases or decreases in the District's allocable share of the SWP Fixed Costs generally will not require adjustments in the water rates of the District but will be factored in the subsequent *ad valorem* assessment levied. The District is not liable under the State Water Supply Contract for the obligations of any other SWP participants.

District Water Facilities

The District's surface water system consists of Palmdale Lake into which water from Littlerock Dam and from the SWP aqueduct are deposited. Water from Palmdale Lake is treated at the Leslie O. Carter Water

Treatment Plant (the “Water Treatment Plant”) using chemical addition, flocculation, sedimentation, filtration, granular activated carbon (“GAC”) and disinfection. The treated water enters the distribution system by gravity or through the low head transfer pump stations. The capacity of the existing plant is 35 million gallons per day. On average, the District utilizes less than 50% of the Water Treatment Plant’s annual capacity and, currently, the District expects this capacity to meet projected demand for at least the next five years. Since 2004, the District has spent approximately \$56,000,000 to upgrade the Water Treatment Plant in order to meet more stringent water quality regulations. These upgrades were completed in April 2009, and include a GAC system for total trihalomethane (“TTHM”) control. GAC is considered Best Available Technology by the Environmental Protection Agency for meeting the new TTHM standards as well as a number of other standards.

In addition to its surface water supply system, the District operates 22 active wells. Water from the majority of the wells is pumped directly into the distribution system adjacent to their physical location. The remaining wells pump water into adjacent holding tanks from which booster pumps lift the water to the appropriate system pressure.

The District’s water distribution system includes 14 water booster or pumping plants, 49.9 million gallons of surface storage capacity and more than 408 miles of distribution pipeline ranging from 4 to 42 inches in diameter. The oldest pipelines are constructed of steel and many have experienced excessive leakage. The District has an ongoing, prioritized replacement program for these older steel pipelines. During calendar years 2013 through 2017, the District replaced 48,785 lineal feet of pipelines, representing 2.25% of all of the pipelines within the District. Water loss in the District’s distribution system in the last five years has ranged from a low of 7.1% in 2017 to a high of 10.6% in 2015. The District considers losses of water in its distribution system to be within acceptable industry standards.

Elevation within the District varies from 2,600 to 3,800 feet, and 7 pressure zones have been created within the District to provide water service at acceptable minimum and maximum pressures. The District attempts to maintain zone pressures between 40 and 120 pounds per square inch. Each pressure zone requires pumping plants or other sources of supply for providing water at the desired pressure. Most pressure zones also have storage facilities for providing water during peak demand, and under emergency and fire flow conditions. There are 43 booster pumps located within the District which vary in size from 10 to 150 hp to boost water in four of the seven primary pressure zones.

Quality of District’s Water

Water quality requirements for potable water are developed by the U.S. Environmental Protection Agency and the California Department of Health Services, pursuant to mandates contained in the Safe Drinking Water Act. On August 2, 1996 Congress passed the Safe Drinking Water Act Amendments of 1996, and President Clinton signed them into law on August 6, 1996. Stored water at Palmdale Lake is conveyed through a 42-inch pipeline to the District’s Water Treatment Plant. The treatment process includes chemical addition, flocculation, sedimentation, filtration, GAC, and disinfection. Treated water at the District satisfies all current requirements of the Federal Safe Drinking Water Act and regulations of the California Department of Public Health. However, future legislation and/or regulations could impose additional requirements necessitating modifications to the water treatment process and procedure currently used by the District, which could have the effect of increasing the cost of treating such water.

Future Capital Projects

The District conducts capital improvement planning on an ongoing basis for the rehabilitation, upgrade, and expansion of facilities, equipment, and improvements necessary to meet current and future needs for water treatment, storage, and conveyance within the existing service area. The table below sets forth a summary of estimated project costs, exclusive of the projects expected to be financed from proceeds of the 2018A Bonds, for the capital projects which the District may undertake over the next five years based on

certain categories. It is important to note that should sufficient funds not be available, several of these projects can be deferred beyond the five year period. Such capital projects, in the amount of up to \$28,745,785, are expected to be financed through water sales, connection fees and loans/grants from the State or other indebtedness incurred by the District.

Table 11
PALMDALE WATER DISTRICT
FIVE YEAR CAPITAL PROJECT PLAN

<i>Category</i>	<i>2018-2022</i>
Well Maintenance and Rehabilitation Projects	\$ 1,250,000
Storage Tank Maintenance Projects	1,875,000
Booster Pump Maintenance Projects	500,000
Water Meter Replacement Projects	4,000,000
Upper Amargosa Creek Recharge	1,120,785
Palmdale Regional Groundwater Recharge & Recovery Project ⁽¹⁾	<u>20,000,000</u>
TOTAL:	<u>\$ 28,745,785</u>

⁽¹⁾ See the caption “—Palmdale Regional Groundwater Recharge and Recovery Project” below.
Source: The District.

The District completed a Draft Water System Master Plan (the “WSMP”) in December 2016 and is in the process of completing an environmental impact report (“EIR”) for the WSMP. The WSMP will provide details for an updated capital improvement program through 2030. Once the WSMP and EIR are completed, the District will develop updated capital improvement fees. The WSMP, EIR and capital improvement fees are expected to be approved by the Board in late 2018.

Palmdale Regional Groundwater Recharge and Recovery Project. The District is in the process of developing the Palmdale Regional Groundwater Recharge and Recovery Project (the “Recharge Project”). The completion of the Recharge Project will not be a necessity unless residential and commercial development within the District returns to pre-recession levels. The District has certified the environmental impact report and is currently working through permitting approvals as well as funding strategies for the Recharge Project. The Recharge Project includes construction of new facilities to deliver SWP water from the California Aqueduct along with recycled water from the Palmdale Water Reclamation Plant to surface spreading basins in the northeast portion of the City of Palmdale. The recharged water would percolate through soil and infiltrate through the recharge basins, mixing with native groundwater, until it is eventually extracted via recovery wells as potable water and delivered to District customers. The first phase of the Recharge Project is intended to assist the District in meeting its water needs to year 2040 by developing a groundwater banking, storage and extraction program. Subsequent phases of the Recharge Project would meet the District’s water needs to build-out of its service area which would be around year 2070. The first phase of the Recharge Project would provide an estimated 4,000 acre feet per year of recycled water to augment the District’s existing water supplies. The capital cost to construct the facilities needed for the first phase of the Recharge Project is projected to be approximately \$35,000,000 and design and construction management is projected to cost approximately \$5,000,000 for a total of \$40,000,000. Approximately \$20,000,000 of the \$40,000,000 would be expended starting in 2022. The overall funding is expected to come from a combination of grants and loans from the Clean Water State Revolving Fund (the “SRF Loan”) with the repayment coming from Net Water Revenues consisting primarily of water supply fees from new development and water revenue from existing customers. Payments on the SRF Loan are expected to be made from Net Water Revenues on a parity with the Series 2018A Installment Payments and the Parity Payments. The District has an approved water supply fee that is calculated based on estimated Recharge Project costs necessary to support new service connection/water demands. The District collects these fees from new development based on the District’s estimate of the water supplies needed for the new development. The District has submitted the required application and technical reports to the State Water Resource Control Board (the “SWRCB”) and has requested that the SWRCB fund

the SRF Loan. The District is waiting for a response from the SWRCB and there is no assurance that the SWRCB will fund all or a portion of the SRF Loan. If SWRCB funding is not available to cover any or all of the projected cost of the Recharge Project, the District may seek other financing through a direct loan or the sale of Bonds by the Authority secured by Net Water Revenues on a parity with the Series 2018A Installment Payments and the Parity Payments. Even if development levels rise to the point that the Recharge Project will be required, the District does not expect to obtain financing for the Recharge Project until rates have been increased by an amount sufficient for the District to comply with the additional bonds test and its covenants under the Installment Purchase Agreement and the Parity Installment Purchase Agreements. See the captions “SYSTEM FINANCIAL INFORMATION—Operating Revenues—Future Rate Setting,” “SECURITY FOR THE 2018A BONDS—Rate Covenant” and “—Additional Bonds and Contracts” herein.

Future Water Sources

The Strategic Water Resources Plan (“SWRP”) that was adopted by the District in March, 2010, and the related Programmatic Environmental Impact Report that was certified by the Board of Directors in August, 2012, were developed to establish guiding objectives and identify necessary steps in order to meet the projected future needs of its customers. Over the next 23 years, the population residing within the District’s current service area is projected to more than double which will require the District to increase supply to meet the water demands of these customers. The District has a number of water resource options available to it in order to meet these needs, including imported water, groundwater, local runoff, recycled water, conservation and water banking. To understand where the District should be placing its emphasis, the SWRP was developed to consider and evaluate the District’s options with respect to a variety of factors including cost, reliability, flexibility, implementation ability and sustainability.

In order to fund the costs of facilities and acquisitions of new water supplies, the principles followed by the SWRP are as follows:

- New customers establishing new connections must pay for new supplies and the infrastructure to deliver those supplies. This includes funding new imported water acquisition, recharge and recovery facilities, and recycled water facilities.
- Current and future customers must pay for reliability of current supply up to budgeted allotments for indoor and outdoor usage. This would include the costs of improvements to maintain Littlerock Reservoir, of the District’s share of improvements to the Delta, and of improvements needed to meet water quality standards.
- Those customers choosing to use more than their allotment need to contribute more to help fund water reliability projects including conservation and recycling.
- Current and future customers are to pay for all Operation and Maintenance Costs as well as fixed costs of existing systems.

In 2015, the District adopted an Urban Water Management Plan (“UWMP”). The UWMP examined the District’s current and future water sources and concluded that existing supplies in combination with identified future and potential water supply opportunities will enable the District to meet all future water demands under all hydrologic conditions through the end of the planning period (2040). Under single dry and multiple-dry year scenarios, there could be pressure (potential deficits) on future water supply, although potential measures to address these situations include controlling future growth (e.g. limiting connections), implementing additional conservation efforts and identifying/securing other long-term sources of supply projects/opportunities that would help overcome supply shortages.

The District currently strives to maintain the capacity to receive approximately 40 percent of its supply from groundwater. The District is reviewing the possibility of increasing yield at Littlerock Creek.

The District is also actively promoting water conservation within its service area to reduce future demands. Finally, recycled water use through the Palmdale Recycled Water Authority (“PRWA”), a joint powers agency of which the District and the City are the only members, is being pursued. PRWA adopted a consolidated Recycled Water Facilities Master Plan in 2015 that addresses potential recycled water use within the District including direct non-potable use (irrigation), agricultural deliveries, and possible groundwater recharge with recycled water.

FACTORS AFFECTING WATER SUPPLIES

State Water Project

General. One of the District’s major sources of water is the State Water Project (“SWP”), which is owned by the State and operated by the California Department of Water Resources (“DWR”). The SWP transports Feather River water stored in and released from Oroville Dam and unregulated flows diverted directly from the Bay-Delta south via the California Aqueduct to delivery points near the boundaries of the District’s service area. The total length of the California Aqueduct is approximately 444 miles.

DWR’s ability to consistently deliver water to the District is one of the most challenging issues affecting the District’s long term water supply. See the caption “—California Water Policy Framework” below.

DWR faces various challenges in the continued supply of imported water to the District and other member agencies. A description of the challenges DWR faces in continuing to supply imported water as well as a variety of other operating information with respect to DWR is included in detail under the caption “STATE WATER PROJECT WATER SUPPLY” in DWR’s Official Statement dated December 6, 2017, relating to its Central Valley Project Water System Revenue Bonds Series AX and AY (“DWR’s Water Supply Disclosure”). The District incorporates DWR’s Water Supply Disclosure by specific reference in this Official Statement. DWR’s Water Supply Disclosure is the disclosure of DWR and, accordingly, neither the District nor the Underwriter makes any representations as to the accuracy or completeness of DWR’s Water Supply Disclosure or as to the absence of material adverse changes in DWR’s Water Supply Disclosure after the date hereof.

DWR has entered into certain continuing disclosure agreements pursuant to which it is contractually obligated for the benefit of owners of certain outstanding obligations to file with certain information repositories annual reports, notices of certain material events as defined under Rule 15c2-12 of the Exchange Act (“Rule 15c2-12”) and annual audited financial statements (the “DWR Information”). This information is to be filed by DWR with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org/>. DWR disclosure documents and annual reports should be reviewed for information pertaining to water supply matters. DWR has not entered into any contractual commitment with the District, the Trustee or the Owners of the 2018 Bonds to provide Department of Water Resources Information to the District or the Owners of the 2018 Bonds. The District has not incorporated by reference the information filed by DWR described above and neither the District nor the Underwriter guarantees the accuracy of the DWR Information.

DWR HAS NOT ENTERED INTO ANY CONTRACTUAL COMMITMENT WITH THE DISTRICT, THE TRUSTEE OR THE OWNERS OF THE 2018A BONDS TO PROVIDE DWR INFORMATION TO THE DISTRICT, THE TRUSTEE OR THE OWNERS OF THE 2018A BONDS.

DWR HAS NOT REVIEWED THIS OFFICIAL STATEMENT AND HAS MADE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED OR INCORPORATED HEREIN, INCLUDING INFORMATION WITH REGARD TO SWP AND DWR. DWR IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE SUCH DWR

INFORMATION, FOR THE BENEFIT OF THE DISTRICT OR THE OWNERS OF THE 2018A BONDS UNDER RULE 15C2-12.

The SWP was designed to meet demands of 4.2 million acre-feet per year. Initial SWP facilities were completed in the early 1970s, and it was envisioned that additional facilities would be constructed as contractor demands increased. Several factors, including public opposition, increased costs, and increased non-SWP demands for limited water supplies, combined to delay the construction of additional facilities. At the same time, contractors' demands for SWP entitlement water have been increasing.

The quantity of SWP water available for delivery each year to its contractors such as the District is controlled by both hydrology and operational considerations, including overall demand from contractors, weather, environmental controls, operational constraints and litigation regarding the SWP. The SWP has been unable to meet contractors' requests for entitlement water in drought periods. DWR has projected that future SWP supplies in normal weather years will be insufficient to meet demands unless additional facilities are constructed. DWR's planning efforts are currently focused on the California Water Fix effort to develop a long-term Bay-Delta solution discussed below.

DWR has stated to contractors that, under its long-term forecast, absent the addition of new facilities, it will be able to deliver an average of approximately 62% of the existing allocations to contractors in the SWP. Under more stringent environmental regulations, the projected allocation to contractors is expected to range between 46% and 51% or about 48.5% without California Water Fix.

The District's allocation from SWP for calendar year 2017 was 85% of its contracted-for amount, or 18,105 acre-feet. This allocation took into account the normal conditions in the northern Sierra Mountains and projected impacts of court-ordered and other restrictions (described below), which have reduced water deliveries from SWP.

Based on a May 21, 2018 announcement by DWR, the District's current SWP allocation under the District's State Water Supply Contract for 2018 is 35 percent of its contracted-for amount, or 7,455 acre-feet. The allocation for 2018 is subject to revision by DWR. This allocation took into account the normal conditions in the northern Sierra Mountains and projected impacts of court-ordered and other restrictions (described below), which have reduced water deliveries from SWP. See "—California Drought and Response" below.

Endangered Species Act Considerations. The District's imported and local supplies are subject to regulatory restrictions due to implementation of the federal Endangered Species Act ("ESA"). The listing of winter-run Chinook salmon in 1989 and delta smelt in 1993 resulted in pumping restrictions imposed on the state and federal water projects to protect these species. These pumping restrictions resulted in reduced deliveries from the SWP and Central Valley Project ("CVP"), compounding the shortages created by the ongoing drought at the time. In 1993, the United States Environmental Protection Agency (the "EPA") also proposed to implement water quality standards for the Bay-Delta that would impose severe restrictions on the operation of the SWP and CVP. It was these circumstances that led to the historic Bay-Delta Accord in 1994, in which the state and federal governments, along with urban, agricultural and environmental interests, agreed to an interim set of ESA protection measures coupled with water supply certainty. The Bay-Delta Accord laid the groundwork for the establishment of the CALFED Bay-Delta Program, which has been succeeded by a number of efforts, including the California Water Action Plan, the Delta Plan and the California Water Fix (See the below caption "—California Water Policy Framework") to develop a long-term solution for conflicts in the Bay-Delta.

Delta Litigation. Various legal challenges have been filed impacting the conveyance of water through the Delta by the DWR via the SWP and by the United States Bureau of Reclamation (the "Bureau") via the CVP. These have included such cases as *Watershed Enforcers v. Broderick* (California Department of Fish and Game), et al. (Alameda County Superior Court, J. Smith, presiding) (the "Watershed Smelt Litigation"),

which relates to the SWP; *Natural Resources Defense Council v. Kempthorne* (United States Department of the Interior) (United States District Court for the Eastern District of California, J. Wanger, presiding) (the “Delta Smelt OCAP Litigation”) and *Pacific Coast Federation of Fisherman’s Association/Institute for Fisheries Resources v. Gutierrez* (United States Department of Commerce) (United States District Court for the Eastern District of California, J. Wanger, presiding) (the “Salmon OCAP Litigation”), which relate to the coordinated operations of the CVP and SWP; and *State Water Contractors* (“SWC”), *San Luis and Delta Mendota Water Authority* (“SLDMWA”), *Westlands Water District* (“WWD”), *et al. v. California Department of Fish and Game* (Sacramento Superior Court) (“Longfin Smelt Litigation”), which also relates to the operations of the SWP.

The above-listed lawsuits constitute challenges to Biological Opinions (“BOs”) relating to the coordinated operations of the CVP and SWP; required permitting for “incidental take” related to the SWP; a decision to list a new species as threatened under the California Endangered Species Act (“CESA”), or other, similar grounds. The factual basis for these cases relate to claims of recent population declines of pelagic organisms, which include the delta smelt and longfin smelt, and certain salmon species, in and around the Delta. While there are other potential causes for the decline of these Delta fish, the BOs, permitting requirements, and listing decisions that underlie these cases have significantly curtailed SWP and CVP deliveries and threaten to further curtail them.

Watershed Smelt Litigation. On October 4, 2006, Watershed Enforcers, a nonprofit organization related to the California Sportfishing Protection Alliance, filed an action against DWR in the Alameda County Superior Court, alleging that DWR was illegally operating certain pumping facilities without obtaining a “take” permit under CESA. Kern County Water Agency (“KCWA”) and SWC, a non-profit association of twenty-seven public agencies, including the District, and others intervened as real-parties-in-interest in the action in support of DWR. The fish species at issue were endangered winter-run Chinook salmon, threatened Delta smelt and spring-run Chinook. The court determined that DWR did not have the required State permit to “take” protected fish species in the Delta, and, on April 17, 2007, issued a final order directing DWR to shut down its Delta export pumps in 60 days, unless it obtained a determination from the State Department of Fish and Game (“DFG”) that SWP operations are in compliance with CESA. Immediate appeals were filed, which stayed enforcement of such order. In July 2009, DWR obtained a Consistency Determination (the “CD”) from DFG providing CESA incidental take coverage and DWR, SWC and KCWA dismissed their appeals. Other parties continued to litigate the appeal on other issues, which have all been determined. The case is now closed.

Delta Smelt OCAP Litigation. In 2005, a coalition of environmental and sportfishing organizations challenged the no jeopardy and no adverse modification findings in a 2005 Operating Criteria and Plan (“2005 OCAP”) BO in the United States District Court for the Eastern District of California. In May 2007, Judge Wanger ruled that the 2005 OCAP BO was unlawful and inadequate. Following a subsequent remedies hearing, the court determined that the water supply to the SWP and CVP would have to be reduced by up to one-third (approximately 2,000,000 acre-feet per year) to mitigate for impacts to the declining population of Delta smelt, and based on that determination issued an interim injunction, which was to remain in effect until a new BO for Delta smelt was prepared.

The 2008 BO prepared by United States Fish and Wildlife Service (“FWS”) and delivered to the Bureau on December 15, 2008 appeared to create water supply impacts greater than those that had already resulted from the Delta Smelt OCAP Litigation court’s interim injunction. This led to the filing of five separate challenges to the 2008 BO in 2009 by SLDMWA, SWC, Metropolitan Water District of Southern California (“MWD”), Central Delta Water Agency, and the Coalition for a Sustainable Delta. The challenges were consolidated before Judge Wanger. On May 28, 2009, Judge Wanger granted the motion for preliminary injunction filed by plaintiffs SLDMWA and WWD, which was joined by SWC and the other plaintiffs, finding that plaintiffs were likely to prevail on their National Environmental Policy Act (“NEPA”) challenge to the 2008 BO. Thereafter, the plaintiffs filed motions for summary judgment, which Judge Wanger granted in part, determining that the Bureau must perform environmental review under NEPA prior to accepting and

implementing the BO and its restrictive measures that would result in a further reduction in water deliveries from the SWP and CVP and other impacts.

On December 14, 2010, Judge Wanger issued a decision on summary judgment finding that there were major scientific and legal flaws in the 2008 BO. The court found that some but not all of the restrictions on project operations contained in the 2008 BO were arbitrary, capricious and unlawful. On May 18, 2011, Judge Wanger issued a final amended judgment directing the FWS to complete a new draft biological opinion by October 1, 2011, and a final biological opinion with environmental documentation by December 1, 2013. Later stipulations and orders changed the October 1, 2011 due date for a draft biological opinion to December 14, 2011. A draft biological opinion was issued on December 14, 2011. The draft biological opinion deferred specification of a reasonable and prudent alternative and an incidental take statement pending completion of environmental impact review under NEPA. The federal defendants and environmental intervenors appealed the final judgment invalidating the 2008 BO to the U.S. Court of Appeals for the Ninth Circuit. SWP and CVP contractor plaintiffs cross-appealed from the final judgment. On March 13, 2014, the Ninth Circuit reversed the district court's findings that portions of the 2008 BO failed to meet the requirements of the ESA and its regulations, but upheld the requirement that the Bureau was required to perform NEPA review. The U.S. Court of Appeals for the Ninth Circuit issued a mandate on September 16, 2014. Petitions for Writ of Certiorari were submitted to the U.S. Supreme Court; however, the Court decided not to hear the case. The District Court issued the Final Order on October 1, 2014.

The SWP and CVP have been operating under the 2008 BO since it was issued. Deliveries of water supply from the SWP and CVP are not likely to increase in the near future unless new information or projects are developed that support a reconsultation and reconsideration of project operations.

Salmon Operating Criteria and Plan Litigation. In the Salmon Operating Criteria and Plan Litigation, the United States District Court for the Eastern District of California issued a summary judgment order invalidating a 2004 BO related to certain salmon species, steelhead, and other aquatic species, finding it unlawful and inadequate on a variety of legal grounds under the ESA, and holding that NEPA review was required. A new BO was released on June 4, 2009 (the "2009 BO") by the National Marine Fisheries Service ("NMFS") which contained new measures concerning complex habitat management schemes and studies which are likely to cause additional water supply impacts. As a result, seven separate actions challenging the 2009 BO were filed in the United States District Court for the Eastern District of California and assigned to Judge Wanger, including challenges by the SWC, MWD, and KCWA. The court consolidated the cases under the caption Consolidated Salmon Cases.

On May 25, 2010, the court granted the plaintiffs' request for preliminary injunction in the Consolidated Salmon Cases, restraining enforcement of two requirements under the 2009 BO that limit exported water during the spring months based on San Joaquin River flows into the Bay-Delta and reverse flows on the Old and Middle Rivers. Hearings on motions for summary judgment in the Consolidated Salmon Cases were held on December 16, 2010. On September 20, 2011, Judge Wanger issued a decision on summary judgment, finding that the 2009 BO was flawed, and that some but not all of the project restrictions in the 2009 BO were arbitrary and capricious. On December 12, 2011, Judge O'Neill (who was assigned to this case following Judge Wanger's retirement) issued a final judgment in the Consolidated Salmon Cases. The final judgment remands the 2009 BO to NMFS, and directs that a new draft salmon BO be issued by October 1, 2014, and that a final salmon BO be issued by March 1, 2017, after completion of environmental impact review under NEPA. On January 19, 2012, Judge O'Neill approved a joint stipulation of the parties that specifies how to comply with one of the 2009 BO restrictions that applies to water project operations in April and May of 2012. In January and February 2012, the federal defendants and environmental intervenors filed appeals of the final judgment in the Consolidated Salmon Cases, and the SWP and CVP contractors filed cross-appeals, but the NEPA holding was not appealed and thus stands. A hearing before the U.S. Court of Appeals for the Ninth Circuit was held in September 2014, and on December 22, 2014, the Ninth Circuit reversed the district court decision and upheld the 2009 BO. The remand order related to the 2009 BO was

rescinded. The Ninth Circuit issued a mandate on February 17, 2015. The district court issued the final order on May 5, 2015.

Longfin Smelt Litigation. The California Fish and Game Commission listed the longfin smelt as a threatened species under CESA in March 2009. On February 23, 2009, in anticipation of the listing action, the DFG issued a CESA section 2081 incidental take permit to DWR authorizing the incidental take of longfin smelt by the SWP. This permit authorizes continued operation of the SWP under the conditions specified in the section 2081 permit through December 31, 2018. SWC filed suit against the DFG on March 25, 2009, alleging that the export restrictions imposed by the section 2081 permit have no reasonable relationship to any harm to longfin smelt caused by SWP operations, are arbitrary and capricious and are not supported by the best available science. Such litigation was recently settled and dismissed.

Monterey Plus Cases. Comprised of four (4) separate but related cases: *Central Delta Water Agency v. California Department of Water Resources* (“CD-I” and CD-II”), *Rosedale-Rio Bravo Water Storage District v. California Department of Water Resources* (“Rosedale”), *Center for Food Safety v. California Department of Water Resources* (“CFS”) (Court of Appeal of the State of California, Third Appellate District, J. Raye, presiding) (“Monterey Plus Cases”), which arose following the DWR transfer of the Kern Water Bank (“KWB”) in 1995, to the Kern County Water Agency (“KCWA”), who subsequently transferred it to the Kern Water Bank Authority (“KWBA”), a public-private JPA formed in anticipation of the transfer and for the purpose of operating the KWB. They are currently pending before the Third District Court of Appeal, awaiting scheduling of oral arguments.

In 1994, the DWR and SWP contractors engaged in mediated negotiations to settle allocation disputes, which resulted in a comprehensive agreement known as the “Monterey Agreement.” The Monterey Agreement became a standard amendment to the long-term water supply contracts, known as the “Monterey Amendments.” Among other things, the Monterey Amendments required the DWR to transfer the KWB property to the KCWA in exchange for the agricultural contractors’ permanent retirement of 45,000 AF in water; the transfer took place in 1995. The DWR first prepared an EIR for the transfer (the “1995 EIR”) as part of a larger EIR prepared by the Central Coast Water Agency (“CCWA”) for the Monterey Amendments. The 1995 EIR was challenged by the Planning and Conservation League and other petitioners (“PCL”), and, on appeal, was decertified and the transfer approvals stricken. However, the court allowed the KWB to continue to be owned and operated by the KWBA on an interim basis until a new environmental review was completed. In 2003, the CCWA set aside its certification of the 1995 EIR and the DWR started a new EIR (the “2003 EIR”). The 2003 EIR was certified on February 1, 2010. In August 2010, the court, following the DWR’s filing of a Return to Peremptory Writ of Mandate (the “2010 Writ”), entered an order discharging the writ and PCL consented.

This led to the *CD-I*, *CD-II* and *Rosedale* petitions, challenging the adequacy of the 2003 EIR and the validity of the transfer. The petitions were ordered “related” and assigned to the same judge at the Superior Court of California, Sacramento. Subsequently, *CD-I* and *Rosedale* were consolidated; *CD-II* was, and continues to be, stayed. In 2014, the court concluded the 2003 EIR was adequate in all aspects except for the part related to the KWB development, operation and use, but allowed DWR’s prior approvals to continue in place on an interim basis and prohibited KWBA from expanding KWB’s operations during this interim period, and issued a judgment and peremptory writ of mandate (the “2014 Writ”) requiring that DWR rectifies the deficiencies in the 2003 EIR by preparing a Revised EIR. *CD-I* petitioners appealed.

In 2016, the DWR issued a Revised EIR (the “REIR”), which was certified on September 20, 2016. The DWR then filed a Return to the 2014 Writ on September 28, 2016. In response, *CD-I* petitioners filed a new petition along with a new party, the Center for Food Safety (“CFS”), alleging that although the KWBA is a public JPA, it is controlled by private operators of agricultural land who have planted significant acreage of permanent crops since obtaining control of the KWB. *CFS* was ordered related to the other cases and reassigned to the same judge.

A single, joint hearing on all four cases was held on August 18, 2017. On October 2, 2017, the court issued an order discharging the 2014 Writ. CFS petitioners appealed. On May 4, 2018, the Court of Appeal for the Third Appellate District granted DWR's request to consolidate the cases for purposes of oral argument and decision. No oral arguments have been scheduled yet.

The SWP and CVP have been operating under the 2008 BO and 2009 BO since they were issued. Deliveries of water supply from the SWP is not likely to increase in the near future unless new information or projects are developed that support a reconsultation and reconsideration of project operations. The District believes that any future decision or order by a State or Federal court related to one or more of the above-described BOs or to the Monterey Plus Cases and leading to adverse decisions reducing SWP supplies would not have a material impact on the District's ability to pay debt service on the 2018 Bonds.

California Water Policy Framework

The District's water supply under its contracts with the SWP is imported through the Bay-Delta. The Bay-Delta is the largest estuary on the west coast and supports more than 750 species of plants and wildlife. However, decades of competing demands have taken a toll on the Bay-Delta and today it no longer functions as a healthy ecosystem. Regulatory actions to protect threatened or endangered fisheries have reduced the reliability of Bay-Delta water supplies. Water quality is degraded, making it difficult and expensive to meet drinking water standards. In addition, the vulnerability of Delta levees to seismic and flooding failures threatens both the infrastructure and the quality of California's water supply.

In 1995, the SWRCB adopted a Water Quality Control Plan for the Sacramento-San Joaquin Delta estuary. The Water Quality Control Plan's standards protect municipal, industrial and agricultural beneficial uses as well as fish and wildlife resources. In January 2003, the SWRCB completed its water rights process for implementing the Water Quality Control Plan.

California Water Fix would be implemented by DWR and is expected to be ultimately financed through the issuance of multiple revenue bonds. SWP contractors, including the District, would be billed for their share of the project's capital costs through DWR's statement of charges and payable from the property tax override (and not from Water Revenues). Capital payments are currently expected to be spread over about 50 years through 2071. California Water Fix is discussed further below. As described below, litigation is currently pending relating to the implementation of California Water Fix. As a result, the District may participate in the Finance Joint Powers Authority and the Delta Conveyance and Construction Joint Powers Authority ("DCA") (described below). In such case, costs relating to California Water Fix may be funded from Water Revenues through the District's future water rates.

On July 25, 2012, Governor Brown and Secretary of the Interior Ken Salazar announced key proposed elements to advance the Bay Delta Conservation Plan ("BDCP") planning process, including diversions in the north Sacramento San Joaquin Delta with a total capacity of 9,000 cubic-feet per second ("cfs"), two tunnels to the existing Clifton Court Forebay and a "decision tree" process for unresolved operation criteria such as fall and spring outflows. The Draft BDCP and associated Draft Environmental Impact Report/ Environmental Impact Statement ("EIR/EIS") were completed on December 13, 2013.

The Delta Habitat Conservation and Conveyance Program ("DHCCP") and the BDCP are programs consisting of joint efforts by agencies of the federal government and the State and local agencies to fund and plan habitat conservation and water supply activities in the Delta, including water conveyance options with respect to certain water conservation and conveyance facilities. In 2016, the State separated the focus of the BDCP into two efforts: the California EcoRestore ("EcoRestore") Project and the California Water Fix. California EcoRestore aims to accelerate and implement a comprehensive suite of habitat restoration actions to support the long-term health of the Sacramento San Joaquin Delta's native fish and wildlife. California Water Fix focuses on protecting the State's water supplies from climate change through water system upgrades that protect against the impacts of sea level rise and earthquakes while improving river flows and reducing

entrainment for threatened fish species. The Sacramento San Joaquin Delta northern diversion facilities previously proposed in the BDCP are now captured within the California Water Fix.

The State released the Recirculated Draft Environmental Impact Report (“RDEIR”)/Supplemental Draft Environmental Impact Statement (“SDEIS”) for California Water Fix on July 10, 2015, and comments were due August 31, 2015. On July 22, 2015, the comment period was extended to October 30, 2015. The RDEIR/SDEIS addresses the environmental impacts of the diversion facilities under the initial operating criteria. The final Environmental Impact Report/Environment Impact Statement for California Water Fix was released in December 2016. In June 2017, the U.S. Fish and Wildlife Service and National Marine Fisheries Services each issued Biological Opinions under the Federal Endangered Species Act and made a determination that California WaterFix is not likely to jeopardize the continued existence of any listed species or destroy or adversely modify those species’ designated critical habitat. On July 21, 2017, DWR signed a Notice of Determination, certified the Final EIR, and approved California WaterFix pursuant to the California Environmental Quality Act. At this time, the Bureau of Reclamation has not certified the Environmental Impact Statement under the National Environmental Policy Act.

California Water Fix is currently facing legal challenges. The District is aware of two lawsuits that have been filed in federal court seeking judicial review of the Biological Opinions issued for California Water Fix under the federal Endangered Species Act. Additionally, 18 lawsuits have been filed in State courts seeking judicial review of the California Water Fix EIR. To the extent these challenges are successful, it is possible that the federal and/or State courts could issue decisions directing the preparation of new biological opinions, a new or revised EIR/EIS, and/or the potential set aside in whole or in part of the California Water Fix approvals. Finally, DWR filed a validation action in the state court with respect to its authority to issue bonds to finance California Water Fix. A number of public agencies and other entities filed answers to the validation action on and prior to September 15, 2017. In addition, DWR entered into a stipulation with a variety of entities to extend the time to file an answer to the validation action to November 15, 2017. However, if DWR is ultimately unsuccessful in their validation action and certain SWP contractors continue the project in some modified form, it may have an impact on project cost and the District’s rates. However, these lawsuits are in their infancy and the District cannot determine the likely outcomes at this time.

DWR and the Bureau of Reclamation are also actively involved in proceedings before the State Board to change the point of diversion for the state and federal water projects right to allow for new diversion points to implement California Water Fix. A decision on this is expected in late 2018.

The current capital cost of California Water Fix, as estimated by the California Natural Resources Agency, is approximately \$11.1 billion. Annual operating costs are currently estimated at approximately \$31.4 million annually during construction, and approximately \$49.6 million annually thereafter. There can be no assurance that such projected costs will not increase as a result of revisions to the project, increases in construction or other costs related thereto. Any changes could be material and impact the costs of the District’s state and federal water supplies.

DWR, SWP contractors and certain CVP contractors are currently considering their participation in California Water Fix and how to finance the next phase of the California Water Fix, which involves the cost of design, engineering and certain other pre-construction costs. The cost of the pre-construction phase is estimated to be \$1,200,000,000, with 55% of such costs expected to be allocated to DWR. The District does not expect to participate in funding the pre-construction phase. Therefore, the District’s share of DWR’s pre-construction phase costs would ultimately be included in future charges paid to DWR once bonds needed to fund the project are issued. There can be no assurance that the pre-construction phase will be undertaken.

Design and construction of California Water Fix is anticipated to take 17 years, if commenced in 2018 as currently projected, and would not be completed until around 2035. There can be no assurance that projected costs of California Water Fix referred to above will not increase as a result of revisions to the project, increase in construction or other costs related thereto or otherwise, including the final allocation of costs

among the parties. Any change could be material. In addition, there can be no assurance that California Water Fix, if undertaken, would be completed within the timeframe currently projected. Any such delay in completion could be material.

The District intends to participate in the California Water Fix project. Participating in the California Water Fix project could result in material changes and impacts on the costs of the District's State and/or federal water supplies. Nonparticipation could pose risks to the District's water supplies that result from climate change, sea level rise, and potential levee failure events, as well as greater reductions in supplies in response to potentially increasing regulatory restrictions. As a result, the District would need to undertake other water supply projects to offset impacts, which may require significant financial investments.

The Finance Joint Powers Authority (the "Finance JPA") and the Delta Conveyance and Construction Joint Powers Authority ("DCA") will implement California Water Fix and provide oversight and fiscal control of the public's investment. SWP and CVP contractors who choose to participate in California Water Fix are expected to contribute interim funding in order to move the project forward until the Finance JPA issues the bonds needed to fund the project. The District does not expect to contribute such interim funding.

The DCA would manage the design and construction phases of the project. This joint powers authority approach has been used successfully for the design and construction of a portion of the Coastal Branch of the California Aqueduct in the mid-1990s.

California Water Fix costs will be split among the SWP and CVP contractors that receive the benefits from the project. The District's share of the costs will be charged to the District by DWR under the District's State Water Supply Contract. To pay the costs, the District will increase the assessments levied on property within the District to pay the charges under the District's State Water Supply Contract. The District does not have sufficient information to project the amount that assessments would increase to pay for the District's share of California Water Fix, but such amount could be significant.

Antelope Valley Groundwater Basin

In 1999, two lawsuits naming the District were filed in Superior Court by landowners owning property in the Antelope Valley. In addition to the District, the lawsuits named as defendants Los Angeles County Waterworks District No. 40, the City of Lancaster, the Rosamond Community Services District, the Littlerock Creek Irrigation District, the Antelope Valley Water Company and the Quartz Hill Water District. The plaintiff landowners claimed in their suit that, as landowners, they were entitled to produce groundwater for use on their overlying land, and that their rights had priority over those of the defendants. The defendants contended that they acquired rights to the Basin groundwater through prescription, and that these prescriptive rights have priority over the rights of the plaintiffs.

In late 2004, the County of Los Angeles Waterworks District No. 40 filed a civil complaint against various groundwater users in the Antelope Basin, including the District, for adjudication of water rights. The lawsuit was consolidated with the prior lawsuits. In late 2015, the District as well as the majority of parties involved agreed to the Judgment for the adjudication of the Antelope Valley Groundwater Basin. The Judgment is on appeal, but the District believes that it is unlikely that its groundwater production right will change significantly as a result of the appeal.

Though the District will be required to make certain changes to its water supply sources as a result of the Judgment, the District does not believe that the Judgment will impact the District's ability to provide the required amount of water to its customers in future years. See "THE WATER SYSTEM—Local Groundwater."

California Drought and Response

State Water Project Allocations. Hydrological conditions in California can vary widely from year to year. In 2013, much of California experienced one of the driest years on record and such dry conditions continued through 2014.

On January 31, 2014, DWR reduced the SWP contractors' 2014 Table A allocations percentage to zero although it later increased the allocation to five percent. Under a zero percent allocation SWP contractors would not have received any of their Table A Amounts, with the exception of carryover amounts from previous years. In 2015, DWR increased the contractor's Table A allocations to 20 percent. The District's actual SWP Table A allocations for 2016 and 2017 were increased to 60 percent and 85 percent, respectively, which is approximately 12,780 acre-feet and 18,105 acre-feet, respectively. Based on a May 21, 2018 announcement by DWR, the District's SWP contractors' Table A allocation for 2018 is currently expected to be 35 percent, which is approximately 7,455 acre-feet. The allocation for 2018 is subject to revision by DWR.

Governor's Executive Order. As a result of the ongoing drought, on January 17, 2014, Governor Edmund G. Brown proclaimed a drought emergency. On April 1, 2015, Governor Brown issued an executive order (the "2015 Executive Order") mandating, among other provisions, a 25% reduction in potable urban water usage in California (as compared to potable water usage in 2013) through February 28, 2016. The 2015 Executive Order provides that the actual mandatory reduction required of each water supplier by the SWRCB vary based on per capita water usage, with those areas with high per capita water usage being required to achieve proportionately higher reductions than those areas with lower per capita water usage.

On May 9, 2016 the Governor issued an executive order directing the SWRCB to adjust and extend the SWRCB's emergency water conservation regulations through the end of January 2017 (the "2016 Executive Order"). On May 18, 2016, and in accordance with the 2016 Executive Order, the SWRCB adopted an emergency water conservation regulation (the "2016 SWRCB Regulation") that replaces its February 2, 2016 emergency regulation and extends through January 31, 2017.

The 2016 SWRCB Regulation requires urban water suppliers such as the District to develop conservation standards based upon each urban water supplier's specific circumstances and replaces the prior percentage reduction-based standard described above. Pursuant to the 2016 SWRCB Regulation, the District filed a conservation standard with the SWRCB on June 22, 2016, which included data and underlying analyses used by the District to determine the conservation standard and to demonstrate compliance with certain substantive requirements of the 2016 SWRCB Regulation. The conservation standard is zero, based on a finding of adequate supplies per the terms of the 2016 SWRCB Regulation.

On April 7, 2017, the Governor issued an executive order (the "2017 Executive Order") which terminates the January 17, 2014 executive order discussed above (except with respect to certain counties within the State) and rescinds the 2015 Executive Order. The 2017 Executive Order continues to require DWR and the SWRCB to develop standards for urban water suppliers to set water use efficiency targets and restrict wasteful water use, as provided in the 2016 Executive Order.

While reductions in water usage resulting from implementation of the 2016 Executive Order may adversely affect the District's projected operating results set forth under the caption "SYSTEM FINANCIAL INFORMATION—Projected Earnings and Debt Service Coverage," the effect of any such reduction would likely be minimized by the current rate structure. The District does not currently believe that such reduction, if achieved by the District, will have a material adverse effect on the District's ability to pay the Series 2018A Installment Payments. The District is obligated under the Installment Purchase Agreement to set rates and charges sufficient to provide Net Water Revenues equal to 110% of Debt Service due in each Fiscal Year as more particularly described under the caption "SECURITY FOR THE 2018A BONDS—Rate Covenant."

District Drought Response Actions and Impact. Although the District’s customers cut water use by 95% of the mandated reductions, the District stabilized revenues through the imposition of the drought surcharge, which was triggered by the Governor’s proclamation of a drought emergency and subsequent Board action. The District imposed the Stage-1 drought surcharge from July 1, 2015 through March 1, 2017. In 2016, the Stage-1 drought surcharge accounted for approximately \$1.2 million in revenues. The drought surcharge has not been imposed since February 2017, but may be imposed if the Governor proclaims a future drought emergency.

The District’s water supply in a normal year is approximately 60% surface water and 40% groundwater. In 2015, the District’s water supply was 66% groundwater and 34% surface water. The District projects that it will be able to meet existing demands for imported water in Fiscal Years 2018 and 2019 even if dry conditions continue. The 35% SWP Table A allocation for 2018, which reflects a more normal allocation, in combination with the 3,500 acre-feet of leased Butte County Table A water will provide the District with more than sufficient carry over supply of surface water to meet current demands should the District experience three more consecutive drought years of identical severity to 2013, 2014 and 2015.

Water Supply Limitations

Factors beyond the control of the District could impair the ability of the District to supply water to its customers in an amount sufficient to yield Net Water Revenues sufficient to pay the Series 2018A Installment Payments when due. Such factors could include, without limitation, the following:

Weather Patterns. The District’s existing sources of water could become limited due to changes in Statewide weather patterns caused by climate changes and other factors. There can be no assurance that currently available water supplies would be sufficient to meet demand under current and future conditions in the event of long-term climate changes that could alter snowpack levels or precipitation patterns. In its most recent California Water Plan (Update 2013), DWR assessed the possible impacts of climate changes on the State’s future water supplies and the SWP. The District, as a SWP contractor, will receive updated information from DWR on any impacts to its SWP allocations and will update its water supply planning accordingly.

Challenges to Department of Water Resources Water Supplies. DWR faces various challenges in continuing to supply imported water to its respective member agencies. The ability of the District to provide water is significantly dependent upon its receipt of imported water from DWR. No assurance can be given that additional water supplies will be secured, or that the District will receive its full Table A Amount pursuant to its contract with DWR. See the caption “—State Water Project” above.

SYSTEM FINANCIAL INFORMATION

Rates and Charges

Existing Rates. The District has the power and authority under California law to establish charges for service without the review or approval of any other governmental body. The District staff annually determines, at the direction of the Board, the adequacy of the District water charge structure after full consideration of expected operations, maintenance and capital costs. See “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218” herein for a discussion of an initiative approved by the voters of the State of California which affects the District’s ability to increase rates and charges in the future. The District’s rates and charges are established by resolution or ordinance adopted by the Board of Directors.

On September 7, 2014, the Board conducted a hearing in accordance with Proposition 218 and adopted a resolution approving a new multi-year tiered increase in rates for 2015 and increases of up to 5.5% annually through 2019. While having authority to increase rates by up to 5.5% annually, the District Board

has determined to increase rates by 4.25% in 2017, 2018, and 2019. Under the new rate structure, metered revenues comprise approximately 55% of total revenues collected by the District making the District's revenue stream more reliable. The average water bill per customer under the new rate structure is between \$48 and \$50 per month, which is similar to other nearby public water providers.

The current rate structure includes a typical fixed meter charge and commodity rates that are billed to customers based on the amount of water they use. However, under the water budget rate structure, each customer is allotted a certain amount of water that the customer may use during the billing period. If the customer uses more than the allotted amount, then the customer pays the commodity rate at increasing tiered amounts, as shown in Table 12 below. Customers are allotted water equally regardless of customer class.

Of the 27,399 meter connections within the District, the District currently serves approximately 26,636 active customers. The District is on a monthly billing cycle for water usage. Payment is due upon receipt of the bill by the customer and is considered delinquent if not paid by the 25th day after the billed date (the "Due Date"). In the event of failure to pay by the Due Date, the District imposes a late charge of 10% of amount due and an additional 1.5% every thirty days. In addition to imposing the late charge, non-payment of a water bill will also cause the District to initiate its Delinquent Final Notice procedure. The District's policy is to discontinue water service within an average of 48 calendar days from the date of the Delinquent Final Notice. After an additional 30-45 days, accounts which continue to be delinquent are turned over to a collection agency. Customer accounts not paid by the Due Date have ranged from 10 to 13% in the past five years, but such delinquency has never resulted in a net reduction in connections because all disconnected water customers generally re-connect their water service within a week of disconnection. Furthermore, delinquencies as a whole have little to no current impact on the District because delinquency rates have been very low. See "PALMDALE WATER DISTRICT—Local Economy." In addition, the District requires that all account holders provide an initial deposit to the District prior to connection from which the District can draw upon in the event of a delinquency. Under the District's current policy, meter connections are only provided to property owners and not to renters or other short-term inhabitants. For Fiscal Year 2017, \$133,620 or 0.6% of billings were written off as uncollectible.

In addition to water rates, the District also charges capital improvement fees. In general, the methodology used to determine capital improvement fees consists of estimating the cost of needed capital improvements for each elevation zone and the District as a whole, estimating the number of new customers which provides the base on which the cost will be allocated and then adjusting the capital improvement fees based upon those estimates. See "—Operating Revenues—*Capital Improvement Fees*" and "—Future Capital Projects" below for additional information.

Future Rate Setting. The District is obligated under the Parity Installment Purchase Agreements, and will covenant in the Installment Purchase Agreement, to set rates and charges sufficient to provide Net Water Revenues equal to 110% of Debt Service due in each Fiscal Year (the "Coverage Requirement") as more particularly described under the caption "SECURITY FOR THE 2018A BONDS—Rate Covenant." Based on current projections, the District will need to have a rate increase approved and raise rates beginning in 2020 in order to comply with the Coverage Requirement in future Fiscal Years. It is expected that further rate increases will be needed periodically during the time that the 2018A Bonds are outstanding in order to comply with the Coverage Requirement and to fund District operations. See "SYSTEM FINANCIAL INFORMATION—Projected Earnings and Debt Service Coverage." The resolution adopted by the Board authorizing the issuance of the Bonds acknowledges the need for future rate increases and directed District staff to complete a new rate study in 2019 and to return to the Board of Directors with proposed rate increases to submit to District ratepayers in accordance with the notice, public hearing and protest provisions of Proposition 218, which would take effect in 2020 and enable the District to comply with the Coverage Requirement in Fiscal Years 2020 through 2024. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218."

While the District has never had a majority protest under Proposition 218 to prior rate increases, the City of Palmdale did file litigation objecting to rate increases approved by the District in 2009 challenging the District's rates and rate structure as unlawful under Proposition 218. After trial court and appellate litigation, and resulting revisions to the District's rate structure tiers, in 2012, the District and the City entered into a settlement agreement. That settlement allowed the District's new rate structure, as revised, and previously implemented rate increases to remain in effect, and also allowed for the previously approved future years' increases to be implemented at the discretion of the District's Board of Directors.

There can be no assurance that District ratepayers in the future will not protest one or more rate increases under Proposition 218, approve an initiative to repeal or modify any increase in water service rates and charges approved by the Board or file litigation challenging District rates, thereby preventing the Board from complying with the Coverage Requirement. There also can be no assurance that the Board will adopt future rate increases or will not repeal or modify any adopted rate increase.

Operating Revenues

Revenues of the District are derived primarily from the following sources: (a) water sales and water services, (b) *ad valorem* taxes and assessments and (c) capital improvement fees. The District does not assess standby charges at this time.

Water Rates and Sales. The rates described below are the rates approved by the District on September 17, 2014. The rates adopted in 2014 were based on the analysis set forth in a rate study prepared by a consultant engaged by the District. That rate study took into consideration the District's revenue requirements and cost projections in reaching its recommended amounts of the rates and charges.

The new commodity rates that went into effect on January 1, 2018 are stated in the table below.

Table 12
PALMDALE WATER DISTRICT
COMMODITY RATES FOR 2018

<u>Tier</u>	<u>All Classes</u> ⁽¹⁾
Tier 1 (\$0.84/unit)	0-100% Essential Allocation
Tier 2 (\$0.97/unit)	100% Essential Allocation – 100% Efficient Allocation
Tier 3 (\$2.75/unit)	101-130% Efficient Allocation
Tier 4 (\$4.14/unit)	131-160% Efficient Allocation
Tier 5 (\$5.35/unit)	161-190% Efficient Allocation
Tier 6 (\$6.87/unit)	191% and Above Efficient Allocation

⁽¹⁾ The District conducted a new water rate study in 2014. Final approval of the 2014 Water Rate Study was passed on September 17, 2014 with the first year's rates taking effect on January 1, 2015. Despite having authority to increase commodity rates by up to 5.5% annually, the District Board elected to increase commodity rates by 4.25% in 2017, 2018, and 2019.

Source: The District.

Certain other fees and charges of the District are set forth below:

Water quality fees (\$/ccf)

\$ 0.11

Elevation booster surcharge (\$/ccf)

Zone	
A 1	\$0.09
A 2	0.57
A 3	1.23

The table below sets forth the drought surcharge for Fiscal Years 2015 through 2019. The drought surcharge is triggered by the Governor’s proclamation of a drought emergency, including water conservation mandated by the Governor, and subsequent Board action. The District imposed the Stage-1 drought surcharge from July 1, 2015 through March 1, 2017. For additional information about the drought surcharge, see the caption “FACTORS AFFECTING WATER SUPPLIES—California Drought and Response—District Drought Response Actions and Impact.”

Drought surcharge (\$/ccf)

Stage No.	Mandated Reduction in Water Deliveries⁽¹⁾	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019
1	20%	\$0.45	\$0.47	\$0.49	\$0.51	\$0.53
2	30	0.77	0.80	0.83	0.87	0.91
3	40	1.19	1.24	1.29	1.35	1.40

⁽¹⁾ Reflects conservation mandated by the Governor.
Source: The District.

The current fixed meter charges, which went into effect on January 1, 2015 for calendar year 2018 are listed in the table below.

**Table 13
PALMDALE WATER DISTRICT
FIXED METER CHARGES FOR 2018**

<u>Meter Size</u>	<u>Monthly Service Charge</u>
1" and smaller	\$ 36.23
1-1/2"	108.68
2"	166.66
3"	301.95
4"	495.22
6"	978.38
8"	1,558.17
10"	2,234.63

Source: The District.

As discussed above, on September 17, 2014, the District’s Board of Directors adopted a new “water budget” structure which took effect on January 1, 2015. The Board’s action also included increases of up to 5.5% in the District’s commodity rate and meter charges which are to be effective on January 1 of each subsequent year through 2019, though such rates were only increased by 4.25% in 2017, 2018, and 2019.

Table 14 below sets forth a comparison of the District's typical monthly residential water bill for a user of 20 CCF per month with a 3/4 inch service to those of nearby water purveyors effective as of February 1, 2018.

Table 14
PALMDALE WATER DISTRICT
COMPARATIVE WATER RATES

<i>Water Service Provider</i>	<i>Average Monthly Charge</i>
CalWater – (All Areas)	\$117.99
Palm Ranch Irrigation District	77.61
Rosamond CSD	76.73
Quartz Hill Water District (7887 square foot lot)	73.03
Newhall County Water District	71.79
Santa Clarita Water Division	66.37
California City	65.26
LACWW – (Region 34, Desert View Highlands WK1)	58.74
Palmdale Water District	58.62
LACWW – (Region 4, Lancaster WC1 [Rancho Vista])	50.65
Victorville Water District	49.26

Source: The District.

Water Services. Revenue is also derived from various services provided to the District's customers. These services are charged for on a "cost plus basis" and constitute less than 5% of total annual Revenues for the District.

Capital Improvement Fees. To provide construction costs of new facilities and the enhancement costs of existing facilities to serve new development, the District undertook a cost/benefit study to determine its capital improvement fee structure and adopted a capital improvement fee policy in October 2013. Pursuant to its policy, the District levies capital improvement fees to pay for improvements necessitated by new development according to water pressure elevation zone and use type. For new residential development, the capital improvement fees are based upon the relative cost of providing service to residential connections in specific elevation zones. For commercial and industrial projects, elevation zones and fire flow requirements fixed by the County determine the capital improvement fees to be paid.

Table 15
PALMDALE WATER DISTRICT
HISTORY OF COLLECTED CAPITAL IMPROVEMENT FEES

<i>Year</i>	<i>CIF Amount</i>
2013	\$ 244,949
2014 ⁽¹⁾	13,547
2015	367,480
2016	234,747
2017	1,021,406

⁽¹⁾ Decrease is the result of a reduced number of new connections in 2014.

Source: The District.

In addition to the capital improvement fee, the District levies a fee on new developments in the Palmdale Lake drainage area to provide construction costs of a diversion canal around the western and

southern sides of Palmdale Lake. A capital improvement fee (exclusive of any applicable Palmdale Lake drainage area fee) is payable to the District upon application for and before installation or approval of installation of any new water service. The capital improvement fees for single family residential connections, approved by the Board on October 23, 2013, are set forth in Table 16 below. Unlike past years, the capital improvement fee structure was modified to include a water supply and a combined infrastructure component. Capital improvement fees for all other development is calculated on a case by case basis based upon estimated fire flow and domestic water demands.

Table 16
PALMDALE WATER DISTRICT
2018 CAPITAL IMPROVEMENT FEES
Capital Improvement Fees for Single Family Residential Connection

<u>Service/Benefit Zones</u>	<u>2800' and 2850' Zones</u>	<u>2950' and 3000' Zones</u>	<u>3200' and 3250' Zones</u>	<u>3400' and Higher Zones</u>
Infrastructure	\$ 1,441	\$ 1,161	\$ 9,089	\$ 12,274
Water Supply	8,665	8,665	8,665	8,665
	<u>\$ 10,106</u>	<u>\$ 9,826</u>	<u>\$ 17,754</u>	<u>\$ 20,939</u>

Source: The District.

The District expects to approve updated capital improvement fees in late 2018, as described under the caption “THE WATER SYSTEM—Draft 2016 Water System Master Plan.”

Ad Valorem Property Taxation. Beginning in fiscal year 1978-79, Article XIII A and its implementing legislation permitted each county to levy and collect all property taxes (except for levies to support prior voter approved indebtedness) and prescribed how levies on county wide property values were to be shared with local taxing entities within each county. All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law, however, provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions.

For purposes of allocating a county’s 1% base property tax levy, future assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, up to 2% inflation) will be allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of “base” sources from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year. The availability of revenue from growth in the tax bases in such entities may be affected by the existence of redevelopment agencies which, under certain circumstances, may be entitled to sources resulting from the increase in certain property values. State law exempts \$7,000 of the assessed valuation of an owner-occupied principal residence. This exemption does not result in any loss of revenue to local agencies since an amount equivalent to the taxes that would have been payable on such exempt values is made up by the State.

Taxes are levied for each fiscal year on taxable real and personal property which is situated in a county as of the preceding January 1. Real property which changes ownership or is newly constructed is revalued at the time the change in ownership occurs or the new construction is completed. The current year property tax rate will be applied to the reassessment, and the taxes will then be adjusted by a proration factor to reflect the portion of the remaining tax year for which taxes are due.

For assessment and collection purposes, property is classified either as “secured” or “unsecured” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State-assessed public utilities property and real property having a tax lien which is sufficient, in

the opinion of the county assessor, to secure payment of the taxes. Other property is assessed on the “unsecured roll.”

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent on December 10 and February 10, respectively, and a 10% penalty attaches to any delinquent payment. Property on the secured roll with respect to which taxes are delinquent becomes tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1.5% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1.5% attaches to them on the first day of each month until paid. The taxing authority has four ways of collecting delinquent unsecured personal property taxes: (1) ringing a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Clerk and County Recorder’s office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements, or possessory interests belonging or assessed to the assessee.

District Assessed Valuation. The general 1% *ad valorem* property tax levy is based upon the assessed valuation of the parcels of taxable property in the District. Property taxes allocated to the District are collected by the County at the same time and on the same tax rolls as are county, city and special district taxes. The assessed valuation of each parcel of property is the same for both District and county taxing purposes. The valuation of secured property by the County is established as of January 1, and is subsequently equalized in September of each year, when tax bills are mailed to property owners.

Appeals and Adjustments of Assessed Valuations. Under California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in the form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. County assessors may independently reduce assessed values as well based upon the above factors or reductions in the fair market value of the taxable property. In most cases, an appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. Any reduction in the assessment ultimately granted as a result of such appeal applies to the year for which application is made and during which the written application was filed. Such reductions are subject to yearly reappraisals and may be adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A.

A second type of assessment appeal involves a challenge to the base year value of an assessed property. Appeals for reduction in the base year value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

The District does not have information regarding pending appeals of assessed valuation of property within the District. No assurance can be given that property tax appeals currently pending or in the future will not significantly reduce the assessed valuation of property within the District.

Taxation of State-Assessed Utility Property. A portion of property tax revenue of the District is derived from utility property subject to assessment by the State Board of Equalization (“SBE”). State-assessed property, or “unitary property,” is property of a utility system with components located in many taxing

jurisdictions that are assessed as part of a “going concern” rather than as individual pieces of real or personal property. The assessed value of unitary and certain other State-assessed property is allocated to the counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the District) according to statutory formulae generally based on the distribution of taxes in the prior year.

Recent changes in the California electric utility industry structure and in the way in which components of the industry are regulated and owned, including the sale of electric generation assets to largely unregulated, nonutility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on utility property tax revenues, or whether legislation or litigation may affect ownership of utility assets or the State’s methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the District.

No Teeter Plan. Certain counties in the State operate under a statutory program entitled Alternate Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”). Under the Teeter Plan local taxing entities receive 100% of their tax levies net of delinquencies, but do not receive interest or penalties on delinquent taxes collected by the county. The County has not adopted the Teeter Plan, and consequently the Teeter Plan is not available to local taxing entities within the County, such as the District. The District’s receipt of property taxes is therefore subject to delinquencies.

Assessed Valuations. The following tables present the assessed valuation for both land only and all property located within the District for the most recent five years.

Table 17
PALMDALE WATER DISTRICT
ASSESSED VALUATIONS (LAND ONLY)
FOR FISCAL YEARS 2013-14 TO 2017-18

<i>Year</i>	<i>Total</i>
2013-14	\$1,414,494,581
2014-15	1,573,991,888
2015-16	1,659,359,685
2016-17	1,720,198,625
2017-18	1,811,065,738

Source: California Municipal Statistics, Inc.

Table 18
PALMDALE WATER DISTRICT
ASSESSED VALUATIONS (ALL PROPERTY)
FOR FISCAL YEARS 2013-14 TO 2017-18

<i>Year</i>	<i>Total</i>
2013-14	\$5,237,243,481
2014-15	5,594,278,064
2015-16	5,679,674,593
2016-17	5,955,421,369
2017-18	6,279,536,818

Source: California Municipal Statistics, Inc.

The following table shows the twenty largest secured property taxpayers in the District and their 2017-18 assessed valuations.

Table 19
PALMDALE WATER DISTRICT
LARGEST 2017-18 LOCAL SECURED TAXPAYERS

<i>Property Owner</i>	<i>Primary Land Use</i>	<i>2017-18 Assessed Valuation</i>	<i>Percent of Total</i>
Time Warner Cable	Communications	\$ 18,000,815	0.99%
MGP X Properties LLC	Shopping Center	13,797,938	0.76
Wal Mart Real Estate Business Trust	Shopping Center	13,224,209	0.73
Robertson's Ready Mix	Industrial	11,659,035	0.64
Palmdale Shopping Center LLC	Shopping Center	7,388,200	0.41
CMIF Fountains LP	Apartments	6,865,591	0.38
Palm Gateway SC LLC	Shopping Center	6,631,481	0.37
Rocky Mountain Fuel Company	Residential Lots	6,592,073	0.36
Shayan Capital Ventures	Commercial	5,466,265	0.30
Vons Realty Co.	Shopping Center	5,390,062	0.30
West Palmdale 10 th Street Center	Shopping Center	5,304,000	0.29
Lowes HIW Inc.	Shopping Center	4,563,970	0.25
Savas and Helen Stathatos Trustees	Commercial	4,436,899	0.25
Stater Bros. Markets	Shopping Center	4,323,909	0.24
Target Corporation	Shopping Center	4,042,741	0.22
A E O LP	Commercial	3,354,634	0.19
AP Palmdale LLC	Shopping Center	2,941,474	0.16
8454 Steller Drive LLC	Shopping Center	2,864,806	0.16
Coast United Advertising Co. Inc.	Commercial	2,637,944	0.15
McDonalds Corp.	Restaurant	<u>2,400,647</u>	<u>0.13</u>
Top 20 Total		\$ 131,886,693	7.29%
2017-18 Local Secured Assessed Valuation (Land Only)		\$1,810,290,238	

Source: California Municipal Statistics

Principal Water Users

In 2017, the District's ten largest water customers constituted 10.64% of total District operating revenues. The City, which is the District's largest customer, was charged for an amount representing 3.91% of the District's total operating revenues. The largest water customers in the District are as follows:

Table 20
PALMDALE WATER DISTRICT
PRINCIPAL WATER USERS (2017 SALES)⁽¹⁾

<u>Customer Name</u>	<u>Amount Charged</u>	<u>% of Total Operating Revenues</u>
City of Palmdale	\$ 925,335.45	3.91%
Palmdale School District	692,251.57	2.93
AV Union High School District	291,701.33	1.23
Lockheed Martin Skunkwork	118,711.48	0.50
HK Realty, Inc.	105,236.35	0.44
Wal-Mart Stores, Inc.	100,054.63	0.42
Linc Housing Corp.	78,628.88	0.33
The Vineyards at Palmdale	76,229.07	0.32
Yossi Ram	67,152.45	0.28
J K Properties, Inc.	61,664.65	0.26
TOTAL:	<u>\$ 2,516,965.86</u>	<u>10.64%</u> ⁽²⁾

⁽¹⁾ Reflects unaudited, actual results.

⁽²⁾ 2017 operating revenues totaled \$23,664,908.56.

Source: The District.

Customer Base

The table below shows the District's water consumption by customer class in 2017.

Table 21
PALMDALE WATER DISTRICT
WATER CONSUMPTION BY CUSTOMER CLASS (2017)

<i>Type of Customer</i>	<i>Number of Accounts</i>	<i>Total Consumption (ccf)</i>	<i>Total Charges</i>	<i>Percent of Total</i>
Single Family	25,138	4,749,038	\$ 17,208,748	67.12%
Multi-Family	545	596,089	1,324,095	8.43
Commercial	684	1,274,322	2,890,156	18.01
Irrigation	233	414,717	851,364	5.86
Construction	17	20,418	56,213	0.29
Other	20	20,437	62,732	0.29
TOTAL:	<u>26,636</u>	<u>7,075,022</u>	<u>\$ 22,404,307</u>	100.00%

Source: The District.

New Meter Connections, Consumption and Sales

The table below indicates total meter connections, water consumption and sales for the District from 2011 through 2017. With 27,399 meter connections, the District expects to serve approximately 26,636 active customers during calendar year 2018. Of such active customers, approximately 96% were residential customers and 4% were non-residential customers.

Table 22
PALMDALE WATER DISTRICT
TOTAL METER CONNECTIONS, WATER CONSUMPTION AND SALES
FOR CALENDAR YEARS 2013-2017

<i>Calendar Year</i>	<i>Total Meters</i>	<i>Water Consumption (in acre-feet)</i>	<i>Total Water Sales Revenues⁽¹⁾</i>
2013	27,353	18,995	\$22,401,581
2014	27,373	18,048	21,771,565
2015 ⁽²⁾	27,394	14,781	19,948,297
2016 ⁽³⁾	27,407	15,213	21,578,227
2017 ⁽⁴⁾	27,399	16,242	22,404,307

⁽¹⁾ Accounts for water revenues derived from sales related to water, meter, elevation, water quality charges.

⁽²⁾ Water sales for 2015 include revenues derived from Stage-1 drought surcharge charges which went into effect July 1, 2015. For additional information about the drought surcharge, see the captions “—Water Rates and Sales” and “FACTORS AFFECTING WATER SUPPLIES—California Drought and Response—District Drought Response Actions and Impact.”

⁽³⁾ Water sales for 2016 include revenues derived from Stage-1 drought surcharge charges which were in effect throughout 2016. For additional information about the drought surcharge, see the captions “—Water Rates and Sales” and “FACTORS AFFECTING WATER SUPPLIES—California Drought and Response—District Drought Response Actions and Impact.”

⁽⁴⁾ Water sales for 2017 include revenues derived from Stage-1 drought surcharge charges which were in effect from January 1, 2017 to March 1, 2017. For additional information about the drought surcharge, see the captions “—Water Rates and Sales” and “FACTORS AFFECTING WATER SUPPLIES—California Drought and Response—District Drought Response Actions and Impact.”

Source: The District.

Actual water sales achieved by the District in future years may increase from the water sales assumptions made by the District and such variation would be material. Increased water sales volume due to additional meter connections may generate additional Water Revenues of the District and could provide increased Net Water Revenues available to make payments on the 2018A Bonds. An increase in Net Water Revenues would generate debt service coverage greater than that set forth in the table under the caption “—Projected Earnings and Debt Service Coverage” below.

Financial Statements

A copy of the most recent audited financial statements of the District prepared by the Nigro & Nigro, PC (the “Auditor”) is included as Appendix A hereto (the “Audited Financial Statements”). The Auditor’s letter concludes that the Audited Financial Statements present fairly, in all material respects, the financial position of the District as of December 31, 2017 and the changes in net assets and cash flows for the year then ended are in conformity with generally accepted accounting principles. The Audited Financial Statements of the District should be read in their entirety. The Audited Financial Statements were received by the District’s Board on _____, 2018.

The summary operating results contained under the caption “—Historic Operating Results” below are based on the audited financial statements of the District for calendar years 2013 through 2017 (excluding certain non-cash items and after certain other adjustments) and are qualified in their entirety by reference to

such statements, including the notes thereto. The Auditor has not reviewed the historical operating results provided below.

The District accounts for its activities as an enterprise fund. Its financial statements use the accrual basis of accounting. Under this method, all assets and liabilities associated with operations are included on the balance sheet, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

Historical Operating Results and Debt Service Coverage

The following table sets forth historical operating results and debt service coverage for the District for the years 2013 through 2017. The historical information in the table for the years 2013 through 2017 is based on the District's audited financial statements for each of these years with certain adjustments to operating expenses and non-operating revenues described below.

Included within the District's *ad valorem* property taxes collected are assessments that may be used only to pay for certain costs under the State Water Supply Contract. The operating results in the table below have been adjusted from those total amounts reflected in the audited financial statements to exclude the property taxes collected for capitalized and fixed operating expenses related to the SWP. Specifically, the operating expenses of the District have been reduced in the table below to exclude the amounts paid by the District for amounts due for fixed operating expenses under the State Water Supply Contract and also to exclude capitalized labor and overhead costs. Included in the non-operating revenues included in the table below are the available *ad valorem* assessments collected not related to the capitalized and fixed operating expenses of State Water Supply Contract. See APPENDIX A—"AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR YEAR ENDING DECEMBER 31, 2017" hereto.

Table 23
PALMDALE WATER DISTRICT
HISTORICAL OPERATING RESULTS AND DEBT SERVICE COVERAGE
FOR YEAR ENDED DECEMBER 31
(Dollars in Thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Operating Revenues					
Operating Revenues ⁽¹⁾	\$ 24,125	\$ 23,342	\$ 21,248	\$ 22,587	\$ 23,606
Rate Stabilization Transfers	<u>(480)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Operating Revenues	\$ 23,645	\$ 23,342	\$ 21,248	\$ 22,587	\$ 23,606
Operating Expenses					
Gross Operating Expenses ⁽¹⁾	\$ 20,393	\$ 22,084	\$ 19,950	\$ 22,299	\$ 23,045
CalPERS Unfunded Liability Payments ⁽²⁾	272	322	369	406	473
Overhead Adjustment ⁽¹⁾⁽³⁾	(217)	(509)	(26)	(153)	(528)
SWP Fixed Operation and Maintenance Expenses ⁽⁴⁾	(720)	(363)	(126)	(86)	(26)
Shortfall in SWP Assessments ⁽⁵⁾	--	--	--	--	--
Non-cash Related OPEB Expense ⁽⁶⁾	<u>(1,455)</u>	<u>(1,786)</u>	<u>(1,828)</u>	<u>(2,069)</u>	<u>(2,195)</u>
Total Operating Expenses	\$ 18,273	\$ 19,748	\$ 18,339	\$ 20,396	\$ 20,769
Net Operating Revenues	\$ 5,372	\$ 3,594	\$ 2,909	\$ 2,191	\$ 2,836
Non-Operating Revenues					
Ad Valorem Property Taxes ⁽¹⁾	\$ 2,417	\$ 1,997	\$ 2,146	\$ 2,189	\$ 2,289
Interest Income ⁽¹⁾	35	45	43	43	146
Capital Improvement Fees ⁽¹⁾	245	14	367	235	1,021
Other ⁽¹⁾⁽⁶⁾	<u>668</u>	<u>(190)⁽¹⁰⁾</u>	<u>620</u>	<u>524</u>	<u>92</u>
Total Non-Operating Revenues	\$ 3,365	\$ 1,866	\$ 3,176	\$ 2,991	\$ 3,549
Net Water Revenue Available for Debt Service	\$ 8,737	\$ 5,461	\$ 6,084	\$ 5,181	\$ 6,386
Debt Service					
2004 Installment Purchase Agreement	\$ 867	\$ --	\$ --	\$ --	\$ --
2012 Installment Purchase Agreement	1,373	1,373	1,372	1,374	1,373
2013 Installment Purchase Agreement	1,380	2,344	2,350	2,345	2,351
2017 Installment Purchase Agreement	<u>190</u>	<u>190</u>	<u>190</u>	<u>184</u>	<u>89</u>
Total Debt Service	<u>\$ 3,810</u>	<u>\$ 3,908</u>	<u>\$ 3,912</u>	<u>\$ 3,903</u>	<u>\$ 3,813</u>
Debt Service Coverage ⁽⁸⁾	2.29	1.40	1.56	1.33	1.67
Debt Service Coverage if all Amounts in the Rate Stabilization Fund are used ⁽⁹⁾	2.42	1.52	1.68	1.45	1.80
Net Water Revenues Available after Payment of Debt Service ⁽⁸⁾	<u>\$ 4,927</u>	<u>\$ 1,553</u>	<u>\$ 2,172</u>	<u>\$ 1,278</u>	<u>\$ 2,572</u>

(Footnotes on Next Page)

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- (1) From the District's Audited Financial Statements.
- (2) Includes only unfunded accrued liability. Does not include the normal cost, which is reflected in Gross Operating Expenses.
- (3) Adjustment made to exclude overhead absorption which represents capital costs and does not constitute Operation and Maintenance Costs under the Installment Purchase Agreement.
- (4) Represents fixed operation and maintenance expenses paid by the District for SWP costs from assessments levied to pay costs associated with the State Water Supply Contract. Does not include fixed capital costs.
- (5) Constitutes amounts paid by the District to cover costs related to the State Water Supply Contract in excess of the assessments available to pay such costs. Such payments were last made in 2008 and 2009 in the amount of approximately \$172,000 and \$377,000, respectively.
- (6) The District has removed the non-cash related portion of the Other Post-Employment Benefits (OPEB) expense from the Gross Operating Expenses. This portion constitutes the unfunded annual required contribution of OPEB liability required by GASB 45.
- (7) Represents rental income, legal/insurance refunds, DWR credits for overpayment of fixed expenses, energy refunds and other net miscellaneous items.
- (8) All Debt Service Coverage and Net Water Revenues Available after Payment of Debt Service for 2013 – 2017 have been re-calculated based on changes made for OPEB accommodation.
- (9) Approximately \$488,000 was on deposit in the Rate Stabilization Fund as of June 1, 2018.

Note: Totals may not add due to rounding.

Source: The District.

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Projected Earnings and Debt Service Coverage

The District is obligated under the Parity Installment Purchase Agreements, and will covenant in the Installment Purchase Agreement, to set rates and charges sufficient to comply with the Coverage Requirement, as more particularly described under the caption “SECURITY FOR THE 2018A BONDS—Rate Covenant.” Based on current projections, in order to comply with the Coverage Requirement, the District will need to complete a Proposition 218 process to raise rates by 2020. Without a rate increase beginning on January 1, 2020, the District calculates that its debt service coverage would be 1.03 in 2020, 0.86 in 2021 and 0.68 in 2022. To comply with the Coverage Requirement in each Fiscal Year through 2022, the District calculates that it would need to increase rates by approximately 1.18% in 2020, 2.99% in 2021 and 3.56% in 2022. The Board may elect to raise rates by more than such amounts. The resolution adopted by the Board authorizing the issuance of the Bonds acknowledges the need for future rate increases and directed District staff to complete a new rate study in 2019 and to return to the Board with recommended rate increases. See the captions “SYSTEM FINANCIAL INFORMATION—Operating Revenues—*Future Rate Setting*” and “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218.”

Table 24 below sets forth projected debt service coverage for the District for the years 2018 through 2022. These projections are based upon the District’s current rates for 2018 and 2019 and assume a 4.0% rate increase in each of 2020, 2021 and 2022 and includes other assumptions that the District believes to be reasonable. Table 24 below does not include projections of debt service on any future debt to be incurred to finance future capital projects. The District expects to incur up to \$20,000,000 of debt through a SRF Loan to finance the Recharge Project. See “THE WATER SYSTEM—Future Capital Projects—Palmdale Regional Groundwater Recharge and Recovery Project. As the SRF Loan is not yet approved, the timing, amount, interest rates and amortization schedules for such debt are unknown and the impact of such debt on the projections cannot be forecasted accurately at this time. It is expected that the payments on a SRF Loan would not begin before 2022. If the SRF Loan is obtained or other debt is issued by the District to finance the Recharge Project, or other capital projects, additional rate increases beyond those projected in Table 24 will be required.

The assumptions used in Table 24 may be affected by numerous factors and there can be no assurance that such projections will be achieved or that the District Board or ratepayers will approve 4.0% rate increases as assumed or any rate increase. The projections in Table 24 are based upon certain forward-looking statements with respect to the financial condition, results of operations and business of the Water System. Forward-looking statements can be identified generally as those containing words such as “anticipates,” “assumes,” “believes,” “estimates,” “expects,” “should,” “will,” “will likely result,” “forecast,” “outlook,” “projects,” “may,” or similar expressions. By their nature, forward looking statements involve risk and uncertainty because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, water rates different than assumed, changes in water demand and related conservation levels, raw materials, rate of technological changes, employee costs, pension costs and actuarial assumptions, debt service payments, interest rates respecting interest income of the Water System, changes in legislation, legal claims and changes in tax rates, among other factors. As a result, future results of the Water System may differ materially from the plans, goals and expectations set forth in such forward-looking statements. For a discussion of other factors that could cause future results to differ from such forward-looking statements, see also “RISK FACTORS” and “FACTORS AFFECTING WATER SUPPLIES.”

Table 24
PALMDALE WATER DISTRICT
PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE
2018 THROUGH 2022
(Dollars in Thousands)

	2018 ⁽¹⁾	2019	2020	2021	2022
Operating Revenues					
Operating Revenues ⁽⁷⁾	\$ 24,609	\$ 25,655	\$ 26,681	\$ 27,748	\$ 28,858
Rate Stabilization Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Revenues	\$ 24,609	\$ 25,655	\$ 26,681	\$ 27,748	\$ 28,858
Operating Expenses					
Gross Operating Expenses ⁽⁸⁾	\$ 23,737	\$ 24,449	\$ 25,182	\$ 25,938	\$ 26,716
CalPERS Unfunded Liability Payments ⁽⁹⁾	572	698	820	942	1,070
Overhead Adjustment ⁽²⁾⁽¹⁰⁾	(500)	(250)	(250)	(250)	(250)
SWP Fixed Operation and Maintenance Expenses ⁽³⁾⁽¹¹⁾	(26)	(26)	(26)	(26)	(26)
Shortfalls in SWP Assessments ⁽⁴⁾	-	-	-	-	-
Non-Cash Related OPEB Expense ⁽⁵⁾⁽¹³⁾	(2,261)	(2,328)	(2,398)	(2,470)	(2,544)
Sediment Removal ⁽¹⁴⁾	<u>-</u>	<u>-</u>	<u>600</u>	<u>618</u>	<u>637</u>
Total Operating Expenses	\$ 21,522	\$ 22,543	\$ 23,928	\$ 24,752	\$ 25,602
Net Operating Revenues	\$ 3,087	\$ 3,112	\$ 2,753	\$ 2,997	\$ 3,256
Non-Operating Revenues					
Ad Valorem Property Taxes ⁽¹²⁾	\$ 2,335	\$ 2,382	\$ 2,429	\$ 2,478	\$ 2,528
Interest Income ⁽¹¹⁾	146	146	146	146	146
Capital Improvement Fees	235	235	235	235	235
Other ⁽⁶⁾⁽¹¹⁾	<u>92</u>	<u>92</u>	<u>92</u>	<u>92</u>	<u>92</u>
Total Non-Operating Revenues	\$ 2,809	\$ 2,855	\$ 2,903	\$ 2,951	\$ 3,001
Net Water Revenue Available for Debt Service	\$ 5,896	\$ 5,967	\$ 5,656	\$ 5,948	\$ 6,258
Debt Service					
2012 Installment Purchase Agreement	\$ 1,370	\$ 1,373	\$ 1,374	\$ 1,372	\$ 1,372
2013 Installment Purchase Agreement	2,351	2,346	2,345	2,348	2,350
2017 Installment Purchase Agreement	179	179	179	179	89
2018 Installment Purchase Agreement*	<u>153</u>	<u>584</u>	<u>584</u>	<u>584</u>	<u>809</u>
Total Debt Service ⁽¹⁵⁾	\$ 4,052	\$ 4,482	\$ 4,483	\$ 4,484	\$ 4,621
Debt Service Coverage	1.45	1.33	1.26 ⁽¹⁷⁾	1.33 ⁽¹⁷⁾	1.35 ⁽¹⁷⁾
Debt Service Coverage if all Amounts in the Rate Stabilization Fund are used ⁽¹⁶⁾	1.58	1.44	1.37	1.44	1.46
Net Water Revenues Available after Payment of Debt Service	\$ 1,843	\$ 1,485	\$ 1,173	\$ 1,464	\$ 1,636

* Preliminary, subject to change.

(1) Projection based on the District's 2018 budget.

(2) Adjustment made to exclude overhead absorption which represents capital costs and does not constitute Operation and Maintenance Costs under the Installment Purchase Agreement.

(3) Represents fixed operation and maintenance expenses projected to be paid by the District for SWP costs from assessments levied to pay costs associated with the State Water Supply Contract. Does not include fixed capital costs.

(4) Constitutes amounts projected to be paid by the District to cover costs related to the State Water Supply Contract in excess of the assessments available to pay such costs. The District does not project any such shortfalls in the next five years.

(5) The District has removed the non-cash related portion of the Other Post-Employment Benefits (OPEB) expense from the Gross Operating Expenses. This portion constitutes the estimated unfunded annual required contribution of OPEB liability required by GASB 45.

(Footnotes Continued on Next Page)

- ⁽⁶⁾ Represents rental income, legal/insurance refunds, DWR credits for overpayment of fixed expenses, energy refunds and other net miscellaneous items.
- ⁽⁷⁾ Projected to increase 4.25% in 2018 and 2019, and then remain level through 2022.
- ⁽⁸⁾ Projected to increase 3% annually.
- ⁽⁹⁾ Includes only unfunded accrued liability cost projected by CalPERS. Does not include the normal cost, which is reflected in Gross Operating Expenses.
- ⁽¹⁰⁾ Projected to remain level.
- ⁽¹¹⁾ Projected to remain at 2018 budgeted levels.
- ⁽¹²⁾ Projected to increase by 2% annually.
- ⁽¹³⁾ Projected to increase by 3% annually.
- ⁽¹⁴⁾ Beginning in 2020, the District expects to undertake a 10 year sediment removal project in connection with the Capital Projects and Littlerock Dam which will cost approximately \$600,000 in 2020 and increase by approximately \$18,000 per year thereafter. See “THE WATER SYSTEM—Future Capital Projects.”.
- ⁽¹⁵⁾ Projected debt service does not include any debt service to finance the future capital projects listed in Table 11. The District has not yet secured financing for any such future projects and the timing, amount, interest rates and amortization schedule for any future debt is unknown but could result in reduced debt service coverage ratios from those shown above.
- ⁽¹⁶⁾ Approximately \$488,000 was on deposit in the Rate Stabilization Fund as of June 1, 2018.
- ⁽¹⁷⁾ See the captions “—Projected Earnings and Debt Service Coverage” and “SYSTEM FINANCIAL INFORMATION—Operating Revenues—Future Rate Setting.”

Note: Totals may not add due to rounding.

Source: The District.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Proposition 218

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

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

Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it.

In July 2006, the California Supreme Court held, in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal. 4th 205 (2006) (“*Bighorn*”), that the initiative power described in Article XIIC applies to any local taxes, assessments, fees and charges as defined in Articles XIIC and XIID. Article XIID defines “fee” or “charge” to mean a levy (other than *ad valorem* or special taxes or assessments) imposed by a local government “upon a parcel or upon a person as an incident of property ownership,” including a user fee for a “property related service.” The Court also found that charges for water delivery are charges for a property-related service and, therefore, constitute “fees” or “charges” within the meaning of both Article XIID and section 3 of Article XIIC. In accordance with Article XIID and the decision in *Bighorn*, the District has conducted notice and hearing proceedings to comply with requirements of Article XIID with respect to proposed increases of rates and charges since Fiscal Year 2007. See the captions “THE WATER SYSTEM—Water System Rates and Charges” and “THE SEWER SYSTEM—Sewer System Rates and Charges.”

On April 20, 2015, the California Court of Appeal, Fourth District, issued an opinion in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano*, 235 Cal. App. 4th 1493 (2015) (“*SJC*”) upholding tiered water rates under Proposition 218 provided that the rates correspond to the actual cost of furnishing service at a given level of usage. The opinion was specific to the facts of the case, including a finding that the City of San Juan Capistrano did not attempt to calculate the actual costs of providing water at various tier levels. The District’s tiered water rates are described under the caption “THE WATER SYSTEM—Water System Rates and Charges.” The District does not currently expect the *SJC* ruling to affect its water rate structure or have a material adverse effect on its financial condition.

Article XIII C. Article XIII C provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIII C does not define the terms “local tax,” “assessment,” “fee” or “charge.” In light of *Bighorn* and as discussed above under the caption “—Article XIII D,” the terms “fee” and “charge” as used in Article XIII C include, at a minimum, all of the fees and charges within the “property related” qualification set forth in Article XIII D. Moreover, the provisions of Article XIII C are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. Therefore, in the absence of other limitations, provisions of Article XIII C could be applicable to the water and sewer rates charged by the District. The District and its general counsel do not believe that Article XIII C grants to the voters within the District the power to repeal or reduce rates and charges in a manner which would be inconsistent with the contractual obligations of the District. However, there can be no assurance of the availability of particular remedies adequate to protect the beneficial owners of the 2018A Bonds. Remedies available to beneficial owners of the 2018A Bonds in the event of a default by the District are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain.

In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations with respect to the 2018A Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors’ rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as Appendix C), will be similarly qualified.

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits

received from, the governmental activity. The District does not believe that the enactment of Proposition 26 has affected its ability to levy rates and charges for water, recycled water or sewer service.

Article XIII A

General. On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution (“Article XIII A”). Article XIII A limits the amount of any *ad valorem* tax on real property to one percent of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and (as a result of an amendment to Article XIII A approved by California voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property that has been approved on or after July 1, 1978 by the voters voting on such indebtedness. Article XIII A defines full cash value to mean “the county assessor’s valuation of real property as shown on the 1975/76 tax bill under ‘full cash value’ or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” This full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

Article XIII A has subsequently been amended to permit reduction of the “full cash value” base in the event of declining property values caused by damage, destruction or other factors to provide that there would be no increase in the “full cash value” base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

Legislation Implementing Article XIII A. Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by each California county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

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

Article XIII B

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

The District is of the opinion that its rates and charges for water, sewer and recycled water services do not exceed the costs it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B, and that tax revenues and other revenues received by the District which may constitute the “proceeds of taxes” are appropriated for debt service or qualified capital outlay projects and are not subject to the limits of Article XIII B.

Proposition 1A

Proposition 1A, which was approved by the voters in November 2004, restricts State authority to reduce major local tax revenues such as the tax shifts permitted to take place in fiscal years 2004-05 and 2005-06. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe State financial hardship, the shift is approved by two thirds of both houses and certain other conditions are met. See the captions “SYSTEM FINANCIAL INFORMATION—Operating Revenues—Ad Valorem Property Taxation” and “—District Assessed Valuation” above.

Future Initiatives

Article XIII A, Article XIII B, Proposition 218, Proposition 1A and Proposition 26 were each adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time other initiative measures could be adopted, further affecting ability of the District to collect or expend Revenues.

THE AUTHORITY

The Palmdale Water District Public Financing Authority was established pursuant to a Joint Exercise of Powers Agreement dated as of April 10, 2013, by and between the District and the California Municipal Finance Authority to assist in financings undertaken by the District. The Board of Directors of the District is appointed as the Governing Board of the Authority.

RISK FACTORS

The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating the purchase of the 2018A 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 2018A Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

Limited Obligations

The obligations of the District to make the Series 2018A Installment Payments is a limited obligation of the District and is not secured by a legal or equitable pledge or charge or lien upon any property of the District or any of its income or receipts, except the Net Water Revenues. The obligation of the District to make the Series 2018A Installment Payments does not constitute an obligation of the District to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation.

Increased Operation and Maintenance Costs

There can be no assurance that expenses of the District with respect to the Water System will be consistent with the levels projected in this Official Statement. Changes in technology, increases in the cost of operation or other expenses could require increases in rates or charges in order to comply with the District’s rate covenant, could increase the possibility of nonpayment, could decrease demand and could reduce the Net Water Revenues available to make Series 2018A Installment Payments.

Property Tax Collections

The District receives a portion of its revenue from the 1% property tax levy under Article XIII A of the State Constitution. Although the housing market is slowly recovering from its recent severe downturn, it is possible that the District will experience higher delinquency rates and reduced property tax collections in the

current and in future fiscal years due to foreclosures, delinquencies, natural disasters or other events adversely affecting property values. In past years, the allocation of Article XIII A property taxes to local agencies has been revised such that property tax revenue was diverted away from special districts, such as the District, to school districts. It cannot be predicted if future legislation will be enacted or Constitutional amendments approved to further reduce, or entirely eliminate, the percentage of the 1% Article XIII A levy paid to the District or whether the State will exercise its rights under Proposition 1A to borrow property taxes from the District. See “SYSTEM FINANCIAL INFORMATION—Operating Revenues—Ad Valorem Property Taxation” and “—District Assessed Valuation,” and “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 1A.”

Rate Covenant Not a Guarantee; Failure to Meet Projections

The ability of the District to make the Series 2018A Installment Payments and thereby pay the principal of and interest on the 2018A Bonds depends on the ability of the District to generate Net Water Revenues in the levels required by the Installment Purchase Agreement. Although, as more particularly described herein, the District expects that sufficient revenues will be generated through the imposition and collection of water charges and fees and other Water System Revenues described herein, there is no assurance that such imposition of water charges, fees, or other Water System Revenues will result in the generation of Net Water Revenues in the amounts required by the Installment Purchase Agreement. As a result, the District’s covenant does not constitute a guarantee that sufficient Net Water Revenues will be available to make debt service payments on the 2018A Bonds.

In addition, the District’s projected operating results are based on a number of assumptions, the capital and operating costs of the capital improvements, and are based on current regulatory requirements. Changes in circumstances, including but not limited to higher than expected capital or operating costs, and increasing regulatory requirements, could have a material adverse impact on the ability of the District to make the Series 2018A Installment Payments and thereby pay the principal of and interest on the 2018A Bonds.

Projected Operating Results

The projected operating results included herein are based on certain assumptions and forecasts. Any forecast is subject to uncertainties. There will usually be differences between actual and forecast results because not all events and circumstances occur as expected, and those differences may be material.

Accordingly, the projected operating results are not necessarily indicative of future performance, and the District does not assume any responsibility for the failure to meet such projections. In addition, certain assumptions with respect to future business and financing decisions of the District are subject to change. No representation is made or intended, nor should any representation be inferred, with respect to the likely existence of any particular future set of facts or circumstances, and prospective purchasers of the 2018A Bonds are cautioned not to place undue reliance upon the projected operating results. If actual results are less favorable than the results projected or if the assumptions used in preparing such projections prove to be incorrect, the amount of Net Water Revenues may be materially less than expected and consequently, the ability of the District to make timely payment of the principal of and interest on the 2018A Bonds may be materially adversely affected.

Neither the District’s independent auditors, nor any other independent accountants have compiled, examined or performed any procedures with respect to the projected operating results, nor have they expressed any opinion or any form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, projected operating results, nor have they expressed any opinion or any form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, projected operating results.

Environmental Regulation

The kind and degree of drinking water treatment is regulated, to a large extent, by the federal government and the State of California. Treatment standards set forth in federal and state law control the operations of the Water System, and mandate their use of technology. If the federal government, acting through the Environmental Protection Agency, or the State of California, acting through the Department of Health Services, or additional federal or state legislation, should impose stricter water quality standards upon the Water System, the District's expenses could increase accordingly and rates and charges would have to be increased to offset those expenses.

It is not possible to predict the direction which federal or state regulation will take with respect to drinking water and wastewater quality standards, although it is likely that both will impose more stringent standards with attendant higher costs.

Shortage of Imported Water and Drought

The ability of the District to service its customers is dependent upon its receipt of imported water from the SWP, as described above under the caption "THE WATER SYSTEM—State Water Project."

No assurance can be made that DWR as the operator of the SWP will continue to supply water to the District in the amounts sufficient to meet the needs of the District. Operating and other financial information with respect to DWR is included in certain publicly available disclosure documents prepared by DWR as described under the caption "FACTORS AFFECTING WATER SUPPLIES."

In addition, lower water usage by customers in response to potential future drought measures adopted by the District could result in reduced water consumption and consequently lower Net Water Revenues. See the caption "FACTORS AFFECTING WATER SUPPLIES—California Drought and Response."

Seismic Considerations

The geographic area constituting the District, like all California communities, may be subject to unpredictable seismic activity. There is significant potential for destructive ground-shaking during the occurrence of a major seismic event. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such an event. In the event of a severe earthquake, there may be significant damage to both property and infrastructure in the District, including the Water System. Such an event could result in disruptions in the services provided by the District, a loss or contamination of groundwater supplies and significant reductions in Net Water Revenues of the District. The District carries earthquake insurance on its headquarters building, and the contents therein, in an amount up to \$3,000,000, and business and interruption insurance in an amount up to \$6,000,000. The District has no earthquake insurance on the Water System.

Water System Demand and Possible Increase in Unpaid Water Bills

There can be no assurance that the local demand for water service provided by the Water System will be maintained at levels described in this Official Statement under the heading "PALMDALE WATER DISTRICT." Reduction in the level of demand could require an increase in rates or charges in order to produce Net Water Revenues sufficient to continue all District operations. Such rate increases could increase the likelihood of nonpayment and could also further decrease demand. Furthermore, there can be no assurance that any other entity with regulatory authority over the Water System will not adopt further restrictions on operation of the Water System.

Climate Change

Climate change caused by human activities is having, and is likely to continue to have, an effect on California and District water resources, as evidenced by a reduction in mountain snowpack, a rise in sea level, and a change in the amount and seasonal timing of river flows. In the foreseeable future, more of the precipitation in California is likely to fall as rain instead of snow. This potential change in weather patterns will exacerbate flood risks and add additional challenges for water supply reliability.

Currently, the Sierra snowpack provides as much as a third of California's water supply by accumulating snow during winter and releasing it slowly during spring and summer. Warming temperatures will cause the snowpack to melt faster and earlier, making it more difficult to store and use water released by the melting snowpack. The loss of snowpack may curtail SWP deliveries which, on average, account for approximately 50% of the District's water supply. Climate change is also expected to result in more variable weather patterns throughout California. More variability can lead to longer and more severe droughts. In addition, the sea level is expected to continue to rise, potentially threatening the existing channels within the Delta.

The District considers the potential effects of climate change in its planning. Although it is clear that climate change has affected and will continue to affect the District, the District's ability to support debt service has not been impacted by the effects of climate change. However, there can be no assurance that climate change will not affect the ability of the District to support debt service in the future.

Limited Recourse on Default; Insurer Right to Control Remedies

Failure by the District to pay the Series 2018A Installment Payments when due constitutes an event of default under the Installment Purchase Agreement and the Trustee is permitted to pursue remedies at law or in equity to enforce the District's obligation to pay Series 2018A Installment Payments. There is no assurance that the District will have sufficient funds to pay the Series 2018A Installment Payments when due. See also "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218" above.

So long as the Insurer has not defaulted under any obligation of the Insurance Policy or the Reserve Surety Policy, it shall be deemed to be the sole holder of the 2018A Bonds insured under the Insurance Policy for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Bonds insured by it are entitled to take pursuant to the Indenture pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee. Remedies granted to the Owners shall expressly include mandamus.

Future Capital Projects and Additional Obligations

The District issues debt from time to time for the purpose of financing capital projects, and expects to issue debt to finance the proposed Recharge Project and may issue debt to finance additional capital projects. See "THE WATER SYSTEM—Future Capital Projects." The District is required under the Installment Purchase Agreement to fix, prescribe and collect Water Revenues for Water Service which will be at least sufficient to yield during each Fiscal Year Net Water Revenues equal to one hundred ten percent (110%) of Debt Service. In the event the District issues future debt, it is possible that future debt service coverage ratios could approach this minimum threshold rather than the levels shown in Table 24 hereof.

The Installment Purchase Agreement permits the issuance of additional obligations payable from Net Water Revenues on parity with the Installment Purchase Agreement. See "SECURITY FOR THE 2018A BONDS—Additional Bonds and Contracts."

In addition, the District is considering participation in California Water Fix or a similar program with other agencies in connection with contemplated upgrades to the State Water Project. It has not been

determined at this time if payments by the District with respect to California Water Fix or a related program will be payable from the property tax override available to pay State Water Project costs payable by the District (and therefore would not be payable from Water Revenues) or if such costs would be payable from Water Revenues. If such costs are payable from Water Revenues, there can be no assurances that such payments would not constitute Operation and Maintenance Costs of the District, payable prior to Series 2018A Installment Payments. Payments of the District in connection with these additional obligations could materially adversely affect the financial condition of the District. See “FACTORS AFFECTING WATER SUPPLIES-California Water Policy Framework.”

Acceleration upon Default

If the District defaults on its obligation to make the Parity Payments, the Trustee has the right to accelerate the entire principal amount of the unpaid Series 2018A Installment Payments and the accrued interest thereon and the entire principal amount of the unpaid Parity Payments and the accrued interest thereon. However, in the event of a default and such acceleration of the Series 2018A Installment Payments or the Parity Payments there can be no assurance that the District will have sufficient Net Water Revenues to pay the accelerated Series 2018A Installment Payments or the accelerated Parity Payments.

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the 2018A Bonds or, if a secondary market exists, that any 2018A 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.

Effect of Bankruptcy

In addition to the limitations on remedies contained in the Indenture, the rights and remedies provided in the Indenture may be limited by and are subject to provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors’ rights. In the event of the bankruptcy of the District, the obligations of the District under the Installment Purchase Agreement may be set aside.

Loss of Tax Exemption

The District will covenant in the Installment Purchase Agreement and the Authority will covenant in the Indenture that each will take all actions necessary to assure the exclusion of interest on the 2018A Bonds from the gross income of the Owners of the 2018A Bonds for federal income tax purposes. In the event the District or the Authority fail to comply with the foregoing tax covenant, interest on the 2018A Bonds may be includable in the gross income of the Owners thereof for federal tax purposes retroactive to the date of issuance of the 2018A Bonds. Legislative changes have been proposed in Congress, which, if enacted, would result in additional federal income tax being imposed on certain owners of tax-exempt state or local obligations, such as the 2018A Bonds. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the 2018A Bonds. Should such an event of taxability occur, the 2018A Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the redemption provisions of the Indenture. See “TAX MATTERS.”

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the

2018A Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest on the 2018A Bonds is exempt from State of California personal income tax.

The difference between the issue price of a 2018A Bond (the first price at which a substantial amount of the 2018A Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the 2018A Bond (to the extent the redemption price at maturity is greater than the issue price) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a beneficial owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a beneficial owner will increase the beneficial owner's basis in the applicable 2018A Bond. In the opinion of 2018A Bond Counsel, the amount of original issue discount that accrues to the beneficial owner of the 2018A Bond is excluded from gross income of such beneficial owner for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the beneficial owner of the 2018A Bonds is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the 2018A Bonds is based upon certain representations of fact and certifications made by the Authority, the District and others and is subject to the condition that the Authority and the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the 2018A Bonds to assure that interest (and original issue discount) on the 2018A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the 2018A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2018A Bonds. The Authority and the District will covenant to comply with all such requirements.

The amount by which a beneficial owner's original basis for determining loss on sale or exchange in the applicable 2018A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the beneficial owner's basis in the applicable 2018A Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a beneficial owner realizing a taxable gain when a 2018A Bond is sold by the beneficial owner for an amount equal to or less (under certain circumstances) than the original cost of the 2018A Bond to the beneficial owner. Purchasers of the 2018A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indentures and the Tax Certificate relating to the 2018A Bonds permit certain actions to be taken or to be omitted if a favorable opinion of a bond counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (or original issue discount) on any 2018A Bond if any such action is taken or omitted based upon the advice of counsel other than Bond Counsel.

Although Bond Counsel will render an opinion that interest (and original issue discount) on the 2018A Bonds is excluded from gross income for federal income tax purposes provided that the Authority and the District continue to comply with certain requirements of the Code, the ownership of the 2018A Bonds and the accrual or receipt of interest (and original issue discount) with respect to the 2018A Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax

consequences. Accordingly, before purchasing any of the 2018A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2018A Bonds.

The Internal Revenue Service (the “IRS”) has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2018A Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2018A Bonds might be affected as a result of such an audit of the 2018A Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the 2018A Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the 2018A Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 2018A BONDS THERE MIGHT BE FEDERAL, STATE, OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE, OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE, OR LOCAL TAX TREATMENT OF THE 2018A BONDS INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES BEING IMPOSED ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2018A BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2018A BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE 2018A BONDS STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE 2018A BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE 2018A BONDS.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix C.

CERTAIN LEGAL MATTERS

The validity of the 2018A Bonds is subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, acting as Bond Counsel. The proposed form of such bond counsel opinion is attached hereto as Appendix C and such legal opinion will be attached to each 2018A Bond.

Stradling Yocca Carlson & Rauth, a Professional Corporation, is serving as Disclosure Counsel to the District with respect to the 2018A Bonds. Certain legal matters will be passed on for the Underwriter by its counsel, Nossaman LLP (“Underwriter’s Counsel”), for the District and the Authority by Aleshire & Wyndor LLP, their general counsel, for the Trustee by its counsel and for the Insurer by its counsel.

Payment of the fees of Bond Counsel, Disclosure Counsel and Underwriter’s Counsel is contingent upon issuance of the 2018A Bonds. Bond Counsel and Disclosure Counsel represent the District in connection with the issuance of the 2018A Bonds. Bond Counsel and Disclosure Counsel represent the Underwriter from time-to-time on matters unrelated to the District or the 2018A Bonds. Bond Counsel and Disclosure Counsel do not represent the Underwriter or any other party in connection with the issuance of the 2018A Bonds.

In addition to the specific limitations on remedies contained in the applicable documents themselves, the right and obligation with respect to the Installment Purchase Agreement is subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors’ rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of

California. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as Appendix C), will be similarly qualified.

LITIGATION

The Authority

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the Authority, threatened against the Authority affecting the existence of the Authority or the titles of its officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the 2018A Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or affecting the action of the Authority contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the Authority or its authority with respect to the 2018A Bonds or any action of the Authority contemplated by any of said documents.

The District

To the best knowledge of the District, there is no action, suit or proceeding known to be pending, or threatened, restraining or enjoining the issuance of the 2018A Bonds, the Indenture, the Installment Purchase Agreement, or any other document relating to the 2018A Bonds, or in any way contesting or affecting the validity of the foregoing.

There are a number of lawsuits and claims pending against the District. In the opinion of the District, such suits and claims as are presently pending will not have a material adverse effect on the ability of the District to make the Series 2018A Installment Payments.

RATINGS

The District expects that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") and Fitch Ratings, Inc. ("Fitch") will assign the 2018A Bonds the ratings of "___" and "___," respectively, based upon the delivery of the Policy by the Insurer at the time of issuance of the 2018A Bonds. S&P and Fitch have assigned the 2018A Bonds the ratings of "___" and "___," respectively, without regard to the delivery of the Policy. There is no assurance that any credit rating given to the 2018A Bonds will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by S&P or Fitch, respectively, if, in the judgment of S&P or Fitch, as applicable, circumstances so warrant. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2018A Bonds. Such ratings reflect only the views of S&P and Fitch, respectively, and an explanation of the significance of such ratings may be obtained from S&P and Fitch.

The District has covenanted in a Continuing Disclosure Certificate to file on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA") notices of any rating changes on the 2018A Bonds. See the caption "CONTINUING DISCLOSURE UNDERTAKING" below and APPENDIX E—"FORM OF CONTINUING DISCLOSURE CERTIFICATE." Notwithstanding such covenant, information relating to rating changes on the 2018A Bonds may be publicly available from the rating agencies prior to such information being provided to the District and prior to the date the District is obligated to file a notice of rating change on EMMA. Purchasers of the 2018A Bonds are directed to the ratings agencies and their respective websites and official media outlets for the most current ratings changes with respect to the 2018A Bonds after the initial issuance of the 2018A Bonds.

In providing a rating on the 2018A Bonds, certain rating agencies may have performed independent calculations of coverage ratios using their own internal formulas and methodology which may not reflect the

provisions of the Indenture. The District makes no representations as to any such calculations, and such calculations should not be construed as a representation by the District as to past or future compliance with any financial covenants, the availability of particular revenues for the payment of Debt Service or for any other purpose.

UNDERWRITING

The 2018A Bonds are being purchased for reoffering by Piper Jaffray & Co. (the “Underwriter”). The Underwriter has agreed to purchase the 2018A Bonds pursuant to a Bond Purchase Agreement with the Authority (the “Purchase Agreement”) at the initial purchase price of \$_____ (being equal to the aggregate principal amount of the 2018A Bonds, less an Underwriter’s discount of \$_____, [plus/less] a net original issue [premium/discount] of \$_____). The Purchase Agreement provides that the Underwriter will purchase all of the 2018A Bonds if any are purchased and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Purchase Agreement. The Underwriter may offer and sell the 2018A Bonds to certain dealers and others at prices lower than the offering prices stated on the cover page hereof. The offering prices may be changed from time to time by the Underwriter.

The Underwriter has entered into a distribution agreement (“Distribution Agreement”) with Charles Schwab & Co., Inc. (“CS&Co”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Distribution Agreement, CS&Co will purchase 2018A Bonds from the Underwriter at the original issue price less a negotiated portion of the selling concession applicable to any 2018A Bonds that CS&Co sells.

CONTINUING DISCLOSURE UNDERTAKING

The District will covenant in a Continuing Disclosure Certificate to be executed by the District upon the issuance of the 2018A Bonds for the benefit of the Underwriter and the beneficial owners of the 2018A Bonds to provide certain financial information and operating data relating to the District by not later than 270 days following the end of the District’s fiscal year (currently its fiscal year ends on the last day of December) (the “Annual Report”), commencing with the report for fiscal year ending December 31, 2018, and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of such enumerated events will be filed by the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report and of the enumerated events is set forth in APPENDIX E—“FORM OF CONTINUING DISCLOSURE CERTIFICATE” hereto. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934.

In the last five years, the District has failed to comply with certain of its continuing disclosure undertakings by failing to timely file notices of certain insurer ratings changes and failing to state its reserve fund balance in connection with the Authority’s Water Revenue Bonds, Series 2013A, in its annual reports for 2013 and 2014. The District has since brought itself current with respect to these notices and reports. The District has retained the services of an outside consultant to assist with filing all notices and reports due under its continuing disclosure undertakings going forward, including for the 2018A Bonds.

MISCELLANEOUS

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of the statements will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the 2018A Bonds.

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

PALMDALE WATER DISTRICT PUBLIC FINANCING
AUTHORITY

Executive Director

PALMDALE WATER DISTRICT

Director of Financial Services

APPENDIX A
AUDITED FINANCIAL STATEMENTS OF THE DISTRICT
FOR YEAR ENDING DECEMBER 31, 2017

APPENDIX B

DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS

The following is a summary of certain provisions of the Installment Purchase Agreement and the Indenture which are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the respective agreement for a full and complete statement of the provisions thereof.

APPENDIX B

DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS

The following is a summary of certain provisions of the Installment Purchase Agreement and the Indenture which are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the respective agreement for a full and complete statement of the provisions thereof.

INSTALLMENT PURCHASE AGREEMENT

DEFINITIONS

Unless the context otherwise requires, the terms defined below shall for all purposes of the Installment Purchase Agreement and of any amendment thereof or supplement thereto and of any report or other document mentioned therein have the meanings defined below, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined therein. All capitalized terms used below and not defined in the Installment Purchase Agreement shall have the meanings ascribed thereto in the Indenture of Trust.

Assumed Interest Rate

The term “Assumed Interest Rate” means the amount of interest calculated in accordance with the following provisions:

(A) **Generally.** Except as otherwise provided in subparagraph (B) below with respect to Variable Interest Rate Contracts, in subparagraph (C) below with respect to Contracts or Bonds with respect to which a Payment Agreement is in force, and in subparagraph (D) below with respect to Balloon Contracts, interest on any Contracts or Bonds shall be calculated based on the actual amount of interest that is payable under such Contracts or Bonds;

(B) **Interest on Variable Interest Rate Contracts.** Interest deemed to be payable on any Variable Interest Rate Contract for periods when the actual interest rate can be determined shall be the actual Variable Interest Rates and for periods when the actual interest rate cannot yet be determined shall be calculated on the assumption that the interest rate on such Variable Interest Rate Contract would be equal to (i) the average rate that accrued on such Variable Interest Rate Contract over the preceding 12 months, or (ii) if the Variable Interest Rate Contract has not been accruing interest at a variable rate for 12 months, the average interest rate that accrued on an outstanding Variable Interest Rate Contract of the District for which interest is computed on substantially the same basis during the preceding twelve month period, or (iii) if no such comparable Variable Interest Rate Contract was outstanding during the 12 months preceding the date of calculation, then (x) if the interest on such Variable Interest Rate Contract is excluded from gross income for purposes of Federal income taxation, 90% of the average rate of interest for The Bond Buyer Revenue Bond Index over the preceding 12 months, or, if that index is no longer published, a similar index selected by the District and acceptable to each

credit enhancer providing credit enhancement for an outstanding Contracts or Bonds, or, if the District fails to select a replacement index, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Variable Rate Interest Contract, or if there are no such Treasury Bonds having equivalent maturities, 80% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets, and (y) if interest on such Variable Interest Rate Contract is not excluded from gross income for purposes of Federal income taxation, 110% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Variable Rate Interest Contract, or if there are no such United States Treasury Bonds having equivalent maturities, 110% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets;

(C) Interest on Obligations with respect to which a Payment Agreement is in Force. Interest deemed to be payable on any Contracts or Bonds with respect to which a Payment Agreement is in force shall be based on the net economic effect on the District expected to be produced by the terms of such Contracts or Bonds and such Payment Agreement, including but not limited to the effects that (i) such Contracts or Bonds would, but for such Payment Agreement, be treated as an obligation bearing interest at a Variable Interest Rate instead shall be treated as an obligation bearing interest at a fixed interest rate, and (ii) such Contracts or Bonds would, but for such Payment Agreement, be treated as an obligation bearing interest at a fixed interest rate instead shall be treated as an obligation bearing interest at a Variable Interest Rate; and accordingly, the amount of interest deemed to be payable on any Contracts or Bonds with respect to which a Payment Agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in such Contracts or Bonds plus the Payment Agreement Payments minus the Payment Agreement Receipts, and for the purpose of calculating as nearly as practicable the Payment Agreement Receipts and the Payment Agreement Payments under such Contracts or Bonds, the following assumptions shall be made:

(1) District Obligated to Pay Net Variable Payments. If a Payment Agreement has been entered into by the District with respect to Contracts or Bonds resulting in the payment of a net variable interest rate with respect to such Contracts or Bonds and Payment Agreement by the District, the interest rate on such Contracts or Bonds for future periods when the actual interest rate cannot yet be determined shall be assumed (but only during the period the Payment Agreement is in effect) to be equal to the sum of (i) the fixed rate or rates stated in such Contracts or Bonds, minus (ii) the fixed rate paid by the Qualified Counterparty to the District, plus (iii) the lesser of (A) the interest rate cap, if any, provided by a Qualified Counterparty with respect to such Payment Agreement (but only during the period that such interest rate cap is in effect) and (B) the applicable Variable Interest Rate calculated in accordance with paragraph (B) above; and

(2) District Obligated to Pay Net Fixed Payments. If a Payment Agreement has been entered into by the District with respect to Contracts or Bonds resulting in the payment of a net fixed interest rate with respect to such Contracts or Bonds and Payment Agreement by the District, the interest on such Contracts or Bonds shall be included in the calculation of Payments (but only during the period the Payment Agreement is in effect) by including for each Fiscal Year or twelve (12) calendar month period an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Payment Agreement;

(D) Interest on Balloon Contracts. If any outstanding Contracts or Bonds constitute Balloon Contracts (and such Contracts or Bonds do not constitute Short-Term Obligations excluded from the calculation of the Payments pursuant to clause (E), below) or if Contracts or Bonds proposed to be incurred would constitute Balloon Contracts (and such Contracts or Bonds would not constitute Short-Term Obligations excluded from the calculation of the Payments pursuant to clause (E), below), then such Balloon Contracts shall be treated as if the principal amount of such Contracts or Bonds were amortized from the date originally incurred in substantially equal installments of principal and interest over a term of 30 years (provided, however, that the full principal amount of such Balloon Contract shall be included in making such calculation if such principal amount is due within 90 days of the date such calculation is being made); and, if interest accrues under such Balloon Contract at other than a fixed rate, the interest rate used for such computation shall be (x) if the interest on such Contracts or Bonds is excluded from gross income for purposes of Federal income taxation, 90% of the average rate of interest for The Bond Buyer Revenue Bond Index over the preceding 12

months, or if that index is no longer published, a similar index selected by the District and acceptable to each credit enhancer providing credit enhancement for outstanding Contracts or Bonds, or if the District fails to select a replacement index, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Contracts or Bonds on the date incurred, or if there are no such United States Treasury bonds having equivalent maturities, 80% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets, and (y) if the interest on such Contracts or Bonds is not excluded from gross income for purposes of Federal income taxation, the rate equal to 110% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Balloon Contract, or, if there are no such United States Treasury Bonds having equivalent maturities, 110% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets;

(E) Exclusion of Certain Short-Term Obligations. If any outstanding Contracts or Bonds constitute Short-Term Obligations or if Contracts or Bonds proposed to be incurred would constitute Short-Term Obligations, and such Short-Term Obligations are or will be payable only out of Revenues of the Fiscal Year in which such Short-Term Obligations are incurred, then such Short-Term Obligations shall be disregarded and not included in calculating Payments; and

(F) Credit for Accrued and Capitalized Interest. If amounts constituting accrued interest or capitalized interest have been deposited with a third party trustee, then the interest payable from such amounts with respect to the Contracts or Bonds shall be disregarded and not included in calculating Parity Payments.

Authority

The term “Authority” means Palmdale Water District Public Financing Authority, a joint exercise of powers agency duly organized and existing under and by virtue of the laws of the State of California.

Balloon Contract

The term “Balloon Contract” means Contracts or Bonds 50% or more of the principal of which matures or is payable on the same date and which is not required by the instrument pursuant to which such Contracts or Bonds were incurred to be amortized by payment or redemption prior to such date.

Balloon Installment Payments

The term “Balloon Installment Payments” means any Parity Payments designated as such in any Balloon Contract.

Bonds

The term “Bonds” means all revenue bonds or notes of the District authorized, executed, issued and delivered by the District, the payments of which are on a parity with the Series 2018A Installment Payments and which are secured by a pledge of and lien on the Water Revenues, including the Authority’s Water Revenue Bonds, Series 2013A.

Construction Fund.

The term “Construction Fund” means the fund by that name created pursuant to the Indenture.

Continuing Disclosure Certificate.

The term “Continuing Disclosure Certificate” means that certain Continuing Disclosure Certificate dated _____, 2018 and executed by the District in connection with the 2018A Bonds.

Contracts

The term “Contracts” means the Installment Purchase Agreement and any amendments and supplements thereto, the 2012 Installment Purchase Agreement, the 2013 Installment Purchase Agreement, and all contracts of the District authorized and executed by the District, the Installment Payments or payments under which are on a parity with the Series 2018A Installment Payments and which are secured by a pledge and lien on the Water Revenues. The term “Contracts” does not include the contracts with the State of California for the State Water Project, including the State Water Supply Contract.

Date of Operation

The term “Date of Operation” means, with respect to any uncompleted Project, the estimated date by which such Project will have been completed and, in the opinion of an engineer, will be ready for commercial operation by or on behalf of the District.

Debt Service

The term “Debt Service” means, for any Fiscal Year, the sum of: (1) the interest paid during such Fiscal Year on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Bonds), (2) that portion of the principal amount of all outstanding serial Bonds paid during such Fiscal Year, (3) that portion of the principal amount of all outstanding term Bonds required to be paid during such Fiscal Year, and (4) that portion of any payments, including the Installment Payments, required to be made at the times provided in the Contracts during such Fiscal Year (1) the interest accruing during such Fiscal Year on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized or is reasonably anticipated to be reimbursed to the District by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program);

For purposes of this definition, interest on any Contracts or Bonds executed or issued by the District shall be calculated based upon the Assumed Interest Rate.

District

The term “District” means the Palmdale Water District, an irrigation district organized and existing under the laws of the State of California.

Engineer’s Report

The term “Engineer’s Report” means a report signed by an independent Engineer.

Event of Default

The term “Event of Default” means an event described in the Installment Purchase Agreement.

Fiscal Year

The term “Fiscal Year” means the period beginning on January 1 of each year and ending on the last day of December of the next succeeding year, or any other twelve-month period selected and designated as the official Fiscal Year of the District.

Indenture of Trust

The term “Indenture of Trust” means the Indenture of Trust, dated as of ____1, 2018, by and between the Authority and the Trustee, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

Independent Engineer

The term “Independent Engineer” means any registered engineer or firm of registered engineers of national reputation generally recognized to be well qualified in engineering matters relating to water delivery systems, appointed and paid by the District, and who or each of whom –

- (1) is in fact independent and not under the domination of the District;
- (2) does not have a substantial financial interest, direct or indirect, in the operations of the District; and
- (3) is not connected with the District as a director, officer or employee of the District, but may be regularly retained to make reports to the District.

Installment Payment Date; Series 2018A Installment Payment Date

The term “Installment Payment Date” means any date on which Installment Payments are scheduled to be paid by the District under and pursuant to any Contract. The term “Series 2018A Installment Payment Date” means the tenth day preceding each Interest Payment Date pursuant to the Indenture of Trust.

Installment Payments; Series 2018A Installment Payments

The term “Installment Payments” means the payments scheduled to be paid by the District under and pursuant to the Contracts, including the Series 2018A Installment Payments. The term “Series 2018A Installment Payments” means the Installment Payments scheduled to be paid by the District under and pursuant to the Installment Purchase Agreement.

Installment Purchase Agreement

The term “Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of ____ 1, 2018, by and between the District and the Authority, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

Insurance Policy

The term “Insurance Policy” means the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the 2018A Bonds when due.

Insurer

The term “Insurer” means _____, any successor thereto or assignee thereof.

Law

The term “Law” means the Government Code of the State of California and all laws amendatory thereof or supplemental thereto.

Manager

The term “Manager” means the General Manager of the District, or any other person designated by the General Manager to act on behalf of the General Manager.

Maximum Annual Debt Service

The term “Maximum Annual Debt Service” means the highest Debt Service for any Fiscal Year or twelve (12) calendar month period through the final maturity date of all Contracts and Bonds; provided, however, for purposes of such calculation, the interest on all Contracts and Bonds shall be computed at the applicable Assumed Interest Rate.

Net Proceeds

The term “Net Proceeds” means, when used with respect to any insurance or condemnation award, the gross proceeds from such insurance or condemnation award, paid with respect to the Water System, remaining after payment therefrom of all expenses incurred in the collection of such gross proceeds.

Net Water Revenues

The term “Net Water Revenues” means, for any Fiscal Year, the Water Revenues for such Fiscal Year less the Operation and Maintenance Costs for such Fiscal Year.

Parity Payment Agreement

The term “Parity Payment Agreement” means a Payment Agreement which is a Contract.

Parity Payments

The term “Parity Payments” means all installment payments and other debt service payments scheduled to be paid by the District under all Contracts or Bonds.

Parity Payments Date

The term “Parity Payments Date” means the date on which any Parity Payments are due on Contracts or Bonds.

Payment Agreement

The term “Payment Agreement” means a written agreement for the purpose of managing or reducing the District’s exposure to fluctuations in interest rates or for any other interest rate, investment, asset or liability managing purposes, entered into either on a current or forward basis by the District and a Qualified Counterparty as authorized under any applicable laws of the State in connection with, or incidental to, the entering into of any Contracts or Bonds, that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments or any combination thereof, or any similar device.

Payment Agreement Payments

The term “Payment Agreement Payments” means the amounts periodically required to be paid by the District to all Qualified Counterparties under all Payment Agreements.

Payment Agreement Receipts

The term “Payment Agreement Receipts” means the amounts periodically required to be paid by all Qualified Counterparties to the District under all Payment Agreements.

Policy Costs

The term “Policy Costs” means the annual amount due with respect to any policy or surety bond in lieu of depositing cash in the Reserve Fund or any reserve fund established for any Bonds or Contracts.

Project

The term “Project” means the additions, betterments, extensions and improvements to the Water System, including real property and buildings, if any, described in the Installment Purchase Agreement.

Purchase Price

The term “Purchase Price” means the principal amount plus interest thereon owed by the District to the Authority under the terms of the Installment Purchase Agreement.

Qualified Counterparty

The term “Qualified Counterparty” means a party (other than the District or a party related to the District) who is the other party to a Payment Agreement and (1) (a) who is rated at least equal to the ratings assigned by each of the Rating Agencies to the obligations secured by Parity Payments (without regard to any gradations within a rating category), but in no event less than a rating of “A” from Fitch, “A2” from Moody’s and “A” from S&P, (b) whose senior debt obligations are rated at least equal to the ratings assigned by each of the Rating Agencies to the obligations secured by Parity Payments (without regard to any gradations within a rating category), or guaranteed by an entity so rated, (c) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by a bond insurer or other institution which has been assigned a credit rating at least equal to the ratings assigned by each of the Rating Agencies to the obligations secured by Parity Payments (without regard to any gradations within a rating category), but in no event less than a rating of “A” from Fitch, “A2” from Moody’s and “A” from S&P, or (d) whose obligations under the Payment Agreement are collateralized in such a manner as to obtain a rating at least equal to the ratings assigned by each of the Rating Agencies to the obligations secured by Parity Payments, and (2) who is otherwise qualified to act as the other party to a Payment Agreement under all applicable laws of the State.

Rate Stabilization Fund

The term “Rate Stabilization Fund” means the fund by that name established pursuant to the Installment Purchase Agreement.

Reserve Surety Policy

The term “Reserve Surety Policy” means that certain municipal bond debt service reserve fund policy issued by the Insurer to satisfy the Reserve Requirement under the Indenture.

Short-Term Obligations

The term “Short-Term Obligations” means Contracts or Bonds having an original maturity of less than or equal to one year and which are not renewable at the option of the District for a term greater than one year beyond the date of original incurrence.

State Water Supply Contract

The term “State Water Supply Contract” means that certain contract between the State and the District by which the District obtains water from the State Water Project, as well as any other contract or agreement by which the District obtains water from the State Water Project and pursuant to which the District is entitled to levy assessments for the purpose of paying costs in connection therewith.

Subordinate Obligations

The term “Subordinate Obligations” means all Contracts or Bonds of the District which are secured by a pledge of and lien on the Water Revenues subordinate to the pledge of and lien on Water Revenues securing the Contracts or Bonds.

Termination Payments

The term “Termination Payments” means any payments due and payable to a Qualified Counterparty in connection with the termination of a Payment Agreement.

Trustee

The term “Trustee” means The Bank of New York Mellon Trust Company, N.A., acting in its capacity as Trustee under and pursuant to the Indenture, and its successors and assigns.

2012 Installment Purchase Agreement

The term “2012 Installment Purchase Agreement” means that certain Installment Purchase Agreement by and between the Palmdale Water District Public Facilities Corporation and the District, dated as of November 1, 2012.

2013 Installment Purchase Agreement

The term “2013 Installment Purchase Agreement” means that certain Installment Purchase Agreement by and between the Authority and the District, dated as of May 1, 2013.

2018A Bonds

The term “2018A Bonds” means the Palmdale Water District Public Financing Authority Water Revenue Bonds, Series 2018A in the aggregate principal amount of \$_____.

Variable Interest Rate

The term “Variable Interest Rate” means any variable interest rate or rates to be paid under any Contracts or Bonds, the method of computing which variable interest rate shall be as specified in the applicable Contracts or Bonds, which Contracts or Bonds shall also specify either (i) the payment period or periods or time or manner of determining such period or periods or time for which each value of such variable interest rate shall remain in effect, and (ii) the time or times based upon which any change in such variable interest rate shall become effective, and which variable interest rate may, without limitation, be based on the interest rate on certain bonds or may be based on interest rate, currency, commodity or other indices.

Variable Interest Rate Contracts

The term “Variable Interest Rate Contracts” means, for any period of time, any Contracts or Bonds that bear a Variable Interest Rate during such period, except that no Contracts or Bonds shall be treated as a

Variable Interest Rate Contract if the net economic effect of interest rates on any particular Parity Payments or such Contracts or Bonds and interest rates on any other Parity Payments of the same Contracts or Bonds, as set forth in such Contracts or Bonds, or the net economic effect of a Payment Agreement with respect to any particular Parity Payments, in either case is to produce obligations that bear interest at a fixed interest rate, and any Contracts or Bonds with respect to which a Payment Agreement is in force shall be treated as a Variable Interest Rate Contract if the net economic effect of the Payment Agreement is to produce obligations that bear interest at a Variable Interest Rate.

Water Revenue Fund

The term “Water Revenue Fund” means the Water System Revenue Fund established pursuant to the Installment Purchase Agreement.

Water Revenues

The term “Water Revenues” means, for any Fiscal Year, all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the District’s Water System, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the District from the sale, furnishing and supplying of the water or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, plus (2) proceeds of the District’s share of the County’s 1% property tax received by the District, if any, plus (3) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, or other moneys, including District reserves and the Reserve Fund, plus (4) the proceeds of any stand by or water availability charges collected by the District, but excluding in all cases customer deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the District, and excluding any proceeds of any taxes or assessments required by law to be used by the District to pay bonds heretofore or hereafter issued and any assessments levied and collected by the District to pay any contract payments due under the State Water Supply Contract, plus (5) money withdrawn from the Rate Stabilization Fund in such Fiscal Year, minus (6) any revenues transferred to the Rate Stabilization Fund in such Fiscal Year.

Upon the defeasance in full of the 2012 Installment Agreement and the 2013 Installment Agreement, the term “Water Revenues” will mean, for any Fiscal Year, all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the District’s Water System, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the District from the sale, furnishing and supplying of the water or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, plus (2) proceeds of the District’s share of the County’s 1% property tax received by the District, if any, plus (3) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, or other moneys, including District reserves and the Reserve Fund, plus (4) the proceeds of any stand by or water availability charges collected by the District, but excluding in all cases customer deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the District, and excluding any proceeds of any taxes or assessments required by law to be used by the District to pay bonds heretofore or hereafter issued and any assessments levied and collected by the District to pay any contract payments due under the State Water Supply Contract, plus (5) money withdrawn from the Rate Stabilization Fund in such Fiscal Year.

Water Service

The term “Water Service” means the water distribution service made available or provided by the Water System.

Water System

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

ACQUISITION AND REFINANCE OF THE PROJECT

Changes to the Project. The District may substitute other improvements for those listed as components of the Project, but only if the District first files with the Authority and the Trustee a statement of the District in the form attached to the Installment Purchase Agreement, identifying the improvements to be substituted and the improvements to District facilities they replace in the Project, and stating that the estimated costs of construction, acquisition and installation of the substituted improvements are not less than such costs for the improvements previously planned.

Sale and Purchase of the Project. In consideration for the Authority's assistance in financing the Project, the District agrees to sell, and sells, to the Authority, and the Authority agrees to purchase and purchases, from the District, the Project at the purchase price specified in the Installment Purchase Agreement and otherwise in the manner and in accordance therewith.

Purchase and Sale of the Project. In consideration for the Installment Payments as set forth in the Installment Purchase Agreement, the Authority agrees to sell, and sells, to the District, and the District agrees to purchase, and purchases, from the Authority, the Project at the purchase price specified in the Installment Purchase Agreement and otherwise in the manner and in accordance therewith.

Title. All right, title and interest in the Project shall vest in the District immediately upon execution and delivery of the Installment Purchase Agreement.

Acquisition and Construction of the Project. The Authority agrees to cause the Project to be constructed, acquired and installed by the District as its agent. The District shall enter into contracts and provide for, as agent for the Authority, the complete construction, acquisition and installation of the Project. The District agrees that it will cause the construction, acquisition and installation of the Project to be diligently performed after the deposit of funds into the Construction Fund, and that it will use its best efforts to cause the construction, acquisition and installation of the Project to be completed. It is expressly understood and agreed that the Authority shall be under no liability of any kind or character whatsoever for the payment of any cost of the Project and that all such costs and expenses shall be paid by the District.

SERIES 2018A INSTALLMENT PAYMENTS

Purchase Price.

1. The Purchase Price to be paid by the District under the Installment Purchase Agreement to the Authority is the sum of the principal amount of the District's obligations thereunder plus the interest to accrue on the unpaid balance of such principal amount from the date thereof over the term thereof, subject to prepayment as provided in the Installment Purchase Agreement.

2. The principal amount of the payments to be made by the District under the Installment Purchase Agreement is set forth therein.

3. The interest to accrue on the unpaid balance of such principal amount is as specified in the Installment Purchase Agreement, and shall be paid by the District as and constitute interest paid on the principal amount of the District's obligations thereunder.

Series 2018A Installment Payments. The District shall, subject to its rights of prepayment provided in the Installment Purchase Agreement, pay the Authority the Purchase Price in installment payments of interest and principal in the amounts and on the Series 2018A Installment Payment Dates as set forth in the Installment Purchase Agreement.

Each Series 2018A Installment Payment shall be paid to the Authority in lawful money of the United States of America. In the event the District fails to make any of the payments required to be made by it under the Installment Purchase Agreement, such payment shall continue as an obligation of the District until such amount shall have been fully paid and the District agrees to pay the same with interest accruing thereon at the rate or rates of interest then applicable to the remaining unpaid principal balance of the Series 2018A Installment Payments if paid in accordance with their terms.

The obligation of the District to make the Series 2018A Installment Payments is absolute and unconditional, and until such time as all of the Series 2018A Installment Payments shall have been paid in full (or provision for the payment thereof shall have been made pursuant to the Installment Purchase Agreement), the District will not discontinue or suspend any Series 2018A Installment Payments required to be made by it under the Installment Purchase Agreement when due, whether or not the Water System or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

Additional Payments. In addition to the Series 2018A Installment Payments, the District shall pay all reasonable compensation to the Trustee for all services rendered under the Indenture and for all reasonable expenses, charges, costs, liabilities, legal fees and other disbursements incurred in and about the performance of its powers and duties under the Indenture.

SECURITY

Pledge of Water Revenues. All Water Revenues and all amounts on deposit in the Water Revenue Fund and the Rate Stabilization Fund are irrevocably pledged to the payment of the Series 2018A Installment Payments as provided in Installment Purchase Agreement, and the Water Revenues shall not be used for any other purpose while any of the Series 2018A Installment Payments remain unpaid; provided that out of the Water Revenues and amounts on deposit in the Water Revenue Fund there may be apportioned such sums for such purposes as are expressly permitted in the Installment Purchase Agreement including the parity claim of any Bonds or Contracts. This pledge, together with the pledge created by all other Contracts and Bonds, shall constitute a first lien on Water Revenues and the Water Revenue Fund and all amounts on deposit therein as permitted in the Installment Purchase Agreement and subject to the application of Water Revenues in accordance with the terms thereof.

Allocation of Water Revenues. In order to carry out and effectuate the pledge and lien contained in the Installment Purchase Agreement, the District agrees and covenants that all Water Revenues shall be received by the District in trust thereunder and shall be deposited when and as received in the "Water Revenue Fund" which fund the District agrees and covenants to maintain and to hold separate and apart from other funds so long as any Installment Payments or Bonds remain unpaid. Moneys in the Water Revenue Fund shall be used and applied by the District as provided in the Installment Purchase Agreement.

The District shall, from the moneys in the Water Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and

Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable. All remaining moneys in the Water Revenue Fund shall be set aside by the District at the following times in the following respective special funds in the following order of priority and all moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes later authorized in the Installment Purchase Agreement:

1. Bond Payment Fund. On or before each Series 2018A Installment Payment Date, the District shall, from the moneys in the Water Revenue Fund, transfer to the Trustee for deposit in the Bond Payment Fund a sum equal to the Series 2018A Installment Payment coming due on such Series 2018A Installment Payment Date. The District shall also, from the moneys in the Water Revenue Fund, transfer to the applicable trustee or payee for deposit in the applicable payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service or payments in accordance with the provisions of the Contract, resolution or indenture relating thereto.

No deposit need be made in the Bond Payment Fund as Series 2018A Installment Payments if the amount in the Bond Payment Fund is at least equal to the amount of the Series 2018A Installment Payment due and payable on the next succeeding Series 2018A Installment Payment Date.

All money in the Bond Payment Fund shall be used and withdrawn by the Trustee in accordance with the Indenture of Trust.

2. Reserve Fund. On or before each payment date required pursuant to the provisions of any Contract or Bond, or any resolution or indenture related thereto, the District shall, from the remaining moneys in the Water Revenue Fund, thereafter, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the applicable trustee for deposit to any reserve fund or account for Bonds or Contracts an amount equal to the amount required to be deposited therein. No such transfer shall be made with respect to the Reserve Fund, which shall be deemed fully funded at all times by the deposit of the Reserve Surety Policy therein.

3. Subordinate Obligations. On or before the payment of principal or interest is due with respect to any Subordinate Obligations, the District shall from moneys in the Water Revenue Fund, transfer to the applicable trustee or payee for deposit in the applicable payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without discrimination or preference, payment on such Subordinate Obligations, in accordance with the provisions of such Subordinate Obligation.

4. Surplus. On the last day of each month, moneys on deposit in the Water Revenue Fund not required to make any of the payments required above may be expended by the District at any time for any purpose permitted by law, including but not limited to the deposit of amounts in the Rate Stabilization Fund in accordance with the Installment Purchase Agreement.

Additional Bonds and Contracts. Notwithstanding satisfaction of the other conditions to the execution of any Contract or the issuance of Bonds set forth in the Installment Purchase Agreement, no such execution or issuance may occur if an Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) exists unless such Event of Default shall be cured upon such execution or issuance.

If the Contract is executed or Bonds are issued for refunding purposes, there shall be delivered an opinion of Bond Counsel addressed to the Insurer (or a reliance letter relating thereto), or a certificate of discharge of the trustee for such Contracts or Bonds to be refunded, to the effect that, upon the making of the required deposit to escrow, the legal defeasance of such Contracts or Bonds to be refunded shall have occurred. If the Contracts or Bonds to be refunded are insured by Assured Guaranty Municipal Corp., at least three Business Days prior to the proposed date for delivery of the insurance policy with respect to such Contracts or Bonds refunding such Contracts or Bonds to be refunded, the Insurer shall also receive (i) the verification

letter, of which the Insurer shall be an addressee, by an Independent Certified Public Accountant, of the adequacy of the escrow established to provide for the payment of such Contracts or Bonds to be refunded in accordance with the terms and provisions of the escrow agreement by which such Contracts or Bonds are being refunded, and (ii) the form of an opinion of Bond Counsel addressed to the Insurer (or a reliance letter relating thereto) to the effect that the escrow agreement by which such Contracts or Bonds are being refunded is a valid and binding obligation of the parties thereto, enforceable in accordance with its terms (such escrow agreement shall provide that no amendments are permitted without the prior written consent of the Insurer). An executed copy of each of such opinion and reliance letter, if applicable, or Trustee's discharge certificate, as the case may be, shall be forwarded to the Insurer prior to delivery of such Contracts or Bonds.

Investments. All moneys held by the District in the Water Revenue Fund shall be invested in Permitted Investments and the investment earnings thereon shall remain on deposit in such fund, except as otherwise provided in the Installment Purchase Agreement. All investment earnings on amounts in the Rate Stabilization Fund shall be transferred to the Water Revenue Fund upon receipt thereof. With regards to funds held by the Trustee, 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 cash transaction statements which include detail for all investment transactions made by the Trustee under the Installment Purchase Agreement.

COVENANTS OF THE DISTRICT

Compliance with Installment Purchase Agreement and Ancillary Agreements. The District will punctually pay the Series 2018A Installment Payments in strict conformity with the terms of the Installment Purchase Agreement, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained therein required to be observed and performed by it, and will not terminate the Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained in the Installment Purchase Agreement required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected therewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Authority or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Indenture of Trust required to be observed and performed by it, and it is expressly understood and agreed by and among the parties to the Installment Purchase Agreement and the Indenture of Trust that, subject to the Installment Purchase Agreement, each of the agreements, conditions, covenants and terms contained in each such agreement is an essential and material term of the purchase of and payment for the Project by the District pursuant to, and in accordance with, and as authorized under the Law.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms required to be observed and performed by it pursuant to all outstanding Contracts and Bonds as such may from time to time be executed or issued, as the case may be.

Against Encumbrances. The District will not make any pledge of or place any lien on Water Revenues or the moneys in the Water Revenue Fund or the Rate Stabilization Fund except as provided in the Installment Purchase Agreement. The District may at any time, or from time to time, issue evidences of indebtedness or incur other obligations for any lawful purpose which are payable from and secured by a pledge of and lien on Water Revenues or any moneys in the Water Revenue Fund and the Rate Stabilization Fund as

may from time to time be deposited therein, provided that such pledge and lien shall be subordinate in all respects to the pledge of and lien thereon provided in the Installment Purchase Agreement.

Against Sale or Other Disposition of Property. The District will not enter into any agreement or lease which impairs the operation of the Water System or any part thereof necessary to secure adequate Water Revenues for the payment of the Series 2018A Installment Payments, or which would otherwise impair the rights of the Authority under the Installment Purchase Agreement or the operation of the Water System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Water System, or any material or equipment which has become worn out, may be sold if such sale will not impair the ability of the District to pay the Series 2018A Installment Payments and if the proceeds of such sale are deposited in the Water Revenue Fund.

Nothing in the Installment Purchase Agreement shall restrict the ability of the District to sell any portion of the Water System if such portion is immediately repurchased by the District and if such arrangement cannot by its terms result in the purchaser of such portion of the Water System exercising any remedy which would deprive the District of or otherwise interfere with its right to own and operate such portion of the Water System.

Against Competitive Facilities. The District will not, to the extent permitted by law, acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the District any potable Water system competitive with the Water System.

Tax Covenants. Notwithstanding any other provision of the Installment Purchase Agreement, absent an opinion of Special Counsel that the exclusion from gross income of interest on the 2018A Bonds will not be adversely affected for federal income tax purposes, the District and the Authority covenant to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income on the 2018A Bonds and specifically covenant, without limiting the generality of the foregoing, as follows:

1. Private Activity. The District and the Authority will not take or omit to take any action or make any use of the proceeds of the 2018A Bonds or of any other moneys or property which would cause the 2018A Bonds to be “private activity bonds” within the meaning of Section 141 of the Code.

2. Arbitrage. The District and the Authority will make no use of the proceeds of the 2018A Bonds or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the 2018A Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code.

3. Federal Guarantee. The District and the Authority will make no use of the proceeds of the 2018A Bonds or take or omit to take any action that would cause the 2018A Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

4. Information Reporting. The District and the Authority will take or cause to be taken all necessary action to comply with the informational reporting requirements of Section 149(e) of the Code necessary to preserve the exclusion of interest on the 2018A Bonds pursuant to Section 103(a) of the Code.

5. Hedge Bonds. The District and the Authority will make no use of the proceeds of the 2018A Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the 2018A Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the District and the Authority take all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the 2018A Bonds for federal income tax purposes.

6. Miscellaneous. The District and the Authority will take no action, or omit to take any action, inconsistent with the expectations stated in any Tax Certificate executed for the 2018A Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Installment Purchase Agreement.

The covenants set forth in the Installment Purchase Agreement shall not be applicable to, and nothing contained therein shall be deemed to prevent the District from issuing Bonds or executing and delivering Contracts, the interest with respect to which has been determined by Special Counsel to be subject to federal income taxation.

Maintenance and Operation of the Water System. The District will maintain and preserve the Water System in good repair and working order at all times and will operate the Water System in an efficient and economical manner and will pay all Operation and Maintenance Costs as they become due and payable.

Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Water Revenues or the funds or accounts created under the Installment Purchase Agreement or under the Indenture of Trust or on any funds in the hands of the District pledged to pay the Series 2018A Installment Payments or to the Owners prior or superior to the lien of the Series 2018A Installment Payments or which might impair the security of the Series 2018A Installment Payments.

Compliance with Contracts. The District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Water System and all other contracts affecting or involving the Water System, to the extent that the District is a party thereto.

Insurance.

7. The District will procure and maintain or cause to be procured and maintained insurance on the Water System with responsible insurers in such amounts and against such risks (including accident to or destruction of the Water System) as are usually covered in connection with facilities similar to the Water System so long as such insurance is available from reputable insurance companies.

In the event of any damage to or destruction of the Water System caused by the perils covered by such insurance, the Net Proceeds thereof shall be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Water System. The District shall begin such reconstruction, repair or replacement promptly after such damage or destruction shall occur, and shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Water System shall be free and clear of all claims and liens.

If such Net Proceeds exceed the costs of such reconstruction, repair or replacement portion of the Water System, and/or the cost of the construction of additions, betterments, extensions or improvements to the Water System, then the excess Net Proceeds may, at the option of the District, be applied in part to the prepayment of Series 2018A Installment Payments as provided in the Installment Purchase Agreement and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal balance of Series 2018A Installment Payments then bears to the aggregate unpaid principal amount of such Bonds and Contracts. If such Net Proceeds are sufficient to enable the District to retire the entire obligation evidenced by the Installment Purchase Agreement prior to the final due date of the Series 2018A Installment Payments as well as the entire obligations evidenced by Bonds and Contracts then remaining unpaid prior to their final respective due dates, the District may elect not to reconstruct, repair or replace the damaged or destroyed portion of the Water System, and/or not to construct other additions, betterments, extensions or improvements to the Water System; and thereupon such

Net Proceeds shall be applied to the prepayment of Series 2018A Installment Payments as provided in the Installment Purchase Agreement and to the retirement of such Bonds and Contracts.

1. The District will procure and maintain such other insurance which it shall deem advisable or necessary to protect its interests and the interests of the Authority, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with municipal retail water systems similar to the Water System.

2. Any insurance required to be maintained by paragraph (a) above and, if the District determines to procure and maintain insurance pursuant to paragraph (b) above, such insurance, may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with municipal retail water systems similar to the Water System and is, in the opinion of an accredited actuary, actuarially sound.

All policies of insurance required to be maintained in the Installment Purchase Agreement shall provide that the Trustee and the Authority shall be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Accounting Records; Financial Statements and Other Reports.

1. The District will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Water System, which records shall be available for inspection by the Authority and the Trustee at reasonable hours and under reasonable conditions. The Trustee shall have no duties to inspect such records.

2. The District will prepare and file with the Authority and the Trustee annually within two hundred seventy (270) days after the close of each Fiscal Year (commencing with the Fiscal Year ending December 31, 2018) financial statements of the District for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with the report of a certified public accountant thereon.

2.

3. As long as there are any outstanding financial obligations of the District (in excess of \$100,000), the District will notify the Authority and the Trustee within 10 days following the date of any event that has the potential to have a material impact on the financial condition of the District.

Protection of Security and Rights of the Authority. The District will preserve and protect the security of the Installment Purchase Agreement and the rights of the Authority to the Series 2018A Installment Payments thereunder and will warrant and defend such rights against all claims and demands of all persons.

Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may later be lawfully imposed upon the Water System, or any part thereof or upon the Water Revenues when the same shall become due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Water System, or any part thereof, but the District shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Collection of Rates and Charges. The District will have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates and charges applicable to the Water Service and providing for the billing thereof and for a due date and a delinquency date for each bill.

Eminent Domain Proceeds. If all or any part of the Water System shall be taken by eminent domain proceedings, the Net Proceeds thereof shall be applied as follows:

(a) If (1) the District files with the Authority and the Trustee a certificate showing (i) the estimated loss of annual Net Water Revenues, if any, suffered or to be suffered by the District by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the Water System proposed to be acquired and constructed by the District from such Net Proceeds, and (iii) an estimate of the additional annual Net Water Revenues to be derived from such additions, betterments, extensions or improvements, and (2) the District, on the basis of such certificate filed with the Authority and the Trustee, determines that the estimated additional annual Net Water Revenues will sufficiently offset the estimated loss of annual Net Water Revenues resulting from such eminent domain proceedings so that the ability of the District to meet its obligations under the Installment Purchase Agreement will not be substantially impaired (which determination shall be final and conclusive), then the District shall promptly proceed with the acquisition and construction of such additions, betterments, extensions or improvements substantially in accordance with such certificate and such Net Proceeds shall be applied for the payment of the costs of such acquisition and construction, and any balance of such Net Proceeds not required by the District for such purpose shall be held by the District and shall be treated as Water Revenues.

(b) If the foregoing conditions are not met, then such Net Proceeds shall be applied by the District in part to the prepayment of Series 2018A Installment Payments as provided in the Installment Purchase Agreement and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal components of the Series 2018A Installment Payments then bears to the aggregate unpaid principal amount of such Bonds and Contracts.

Further Assurances. The District will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Installment Purchase Agreement and for the better assuring and confirming unto the Authority of the rights and benefits provided to it therein.

Enforcement of Contracts. So long as any of the 2018A Bonds are outstanding, the District will not voluntarily consent to or permit any rescission of, nor will it consent to any amendment to or otherwise take any action under or in connection with any contracts previously or later entered into which contracts provide for water to be supplied to the District which will reduce the supply of water thereunder (except as provided therein) if such rescission or amendment would in any manner impair or adversely affect the rights of the owners from time to time of the 2018A Bonds.

Superior Additional Obligations. The District shall not execute any Contracts or issue any Bonds, as the case may be, that are payable from or secured by a pledge of and lien on Water Revenues and any money in the Water Revenue Fund superior to the pledge securing the Series 2018A Installment Payments.

Continuing Disclosure. The District will comply with and carry out all of its obligations under the continuing disclosure agreement to be executed and delivered by the District in connection with the issuance of the 2018A Bonds. Notwithstanding any other provision of the Installment Purchase Agreement, failure of the District to comply with the continuing disclosure agreement shall not be considered an Event of Default.

Payments in Connection with State Water Supply Contract. The District shall apply to the payments due for any Fiscal Year under that certain Water Supply Contract, by and between the District and the State of California Department of Water Resources, as amended, all amounts the District collects through the *ad valorem* assessment levied to pay such amounts.

Provision of Information to the Insurer. So long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy, the Insurer shall be provided with the following information by the District:

(a) Annual audited financial statements within 270 days after the end of the District's Fiscal Year (together with a certification of the District that it is not aware of any default or Event of Default under this Installment Purchase Agreement), and the District's annual budget within 30 days after the approval thereof together with such other information, data or reports as the Insurer shall reasonably request from time to time;

(b) Notice of the commencement of any proceeding by or against the District commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law;

(c) A full original transcript of all proceedings relating to the execution of any amendment, supplement, or waiver to this Installment Purchase Agreement or any supplement thereto or amendment thereof; and

(d) All information furnished pursuant to the Continuing Disclosure Certificate shall also be provided to the Insurer, simultaneously with the filing of the Continuing Disclosure Certificate with any electronic repository

EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY

Events of Default and Acceleration of Maturities. If one or more of the following Events of Default shall happen, that is to say –

(A) if default shall be made by the District in the due and punctual payment of any Series 2018A Installment Payment or any Contract or Bond when and as the same shall become due and payable;

(B) if default shall be made by the District in the performance of any of the agreements or covenants required in the Installment Purchase Agreement or in connection with any Contract or Bond to be performed by it, and such default shall have continued for a period of sixty (60) days after the District shall have been given notice in writing of such default by the Authority;

(C) if the District shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property; or

(D) if payment of the principal of any Contract or Bond is accelerated in accordance with its terms;

then and in each and every such case upon the occurrence of such Event of Default specified in clauses (3) and (4) above, without any notice to the District or any other act by any Person, the entire principal amount of the unpaid Series 2018A Installment Payments and the accrued interest thereon shall be immediately due and payable and for any other Event of Default the Authority may, by notice in writing to the District declare the entire principal amount of the unpaid Series 2018A Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained in the Installment Purchase Agreement to the contrary notwithstanding. The

Installment Purchase Agreement, however, is subject to the condition that if at any time after the entire principal amount of the unpaid Series 2018A Installment Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered the District shall deposit with the Authority a sum sufficient to pay the unpaid principal amount of the Series 2018A Installment Payments or the unpaid payment of any other Contract or Bond referred to in clause (1) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the Series 2018A Installment Payments or such Contract or Bond if paid in accordance with their terms, and the reasonable expenses of the Authority, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid Series 2018A Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Authority, if appropriate, or provision deemed by the Authority, if appropriate, to be adequate shall have been made therefor, then and in every such case the Authority, if appropriate by written notice to the District, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration. Upon the date of the declaration of acceleration as provided in the Installment Purchase Agreement, all Water Revenues thereafter received by the District shall be applied in the following order –

First, to the payment, of the fees, costs and expenses of the Trustee, if any, in carrying out the provisions of the Installment Purchase Agreement, including reasonable compensation to their respective accountants and counsel and any outstanding fees and expenses of the Trustee, and then to the payment of the fees, costs and expenses of the Authority, if any, in carrying out the provisions of the Installment Purchase Agreement, including reasonable compensation to their respective accountants and counsel;

Second, to the payment of the Operation and Maintenance Costs;

Third, to the payment of the entire principal amount of the unpaid Series 2018A Installment Payments and the unpaid principal amount of all Bonds and Contracts and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable to the Series 2018A Installment Payments and such Bonds and Contracts if paid in accordance with their respective terms; and

Fourth, to the payment of Subordinate Obligations in accordance with the terms thereof.

Other Remedies of the Authority. The Authority shall have the right:

1. by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any director, officer or employee thereof, and to compel the District or any such director, officer or employee to perform and carry out its or his duties under the Law and the agreements and covenants required to be performed by it or him contained in the Installment Purchase Agreement;

2. by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Authority; or

3. by suit in equity upon the happening of an Event of Default to require the District and its directors, officers and employees to account as the trustee of an express trust.

Notwithstanding anything contained in the Installment Purchase Agreement, the Authority shall have no security interest in or mortgage on the Project, the Water System or other assets of the District and no default thereunder shall result in the loss of the Project, the Water System, or other assets of the District.

Non-Waiver. Nothing in the Installment Purchase Agreement or in any other provision thereof shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the Series 2018A Installment Payments to the Authority at the respective due dates or upon prepayment from the Net Water Revenues, the Water Revenue Fund and the other funds therein pledged for such payment, or shall affect or impair the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied therein.

A waiver of any default or breach of duty or contract by the Authority shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Authority to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Authority by the Law or by the Installment Purchase Agreement may be enforced and exercised from time to time and as often as shall be deemed expedient by the Authority.

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

Remedies Not Exclusive. No remedy in the Installment Purchase Agreement conferred upon or reserved to the Authority is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given thereunder or now or later existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law. To the extent that the Installment Purchase Agreement confers upon or gives or grants the Trustee any right, remedy or claim under or by reason of the Installment Purchase Agreement, the Trustee is explicitly recognized as being a third-party beneficiary thereunder and may enforce any such right, remedy or claim conferred, given or granted thereunder.

DISCHARGE OF OBLIGATIONS

Discharge of Obligations. When

1. all or any portion of the Series 2018A Installment Payments shall have become due and payable in accordance with the Installment Purchase Agreement or a written notice of the District to prepay all or any portion of the Series 2018A Installment Payments shall have been filed with the Trustee; and

2. there shall have been deposited with the Trustee at or prior to the Series 2018A Installment Payment Dates or date (or dates) specified for prepayment, in trust for the benefit of the Authority or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of the Series 2018A Installment Payments, sufficient moneys and non-callable Permitted Investments, issued by the United States of America and described in clauses (a) or (b) of the definition thereof, the principal of and interest on which when due will provide money sufficient to pay all principal, prepayment premium, if any, and interest of such Series 2018A Installment Payments to their respective Series 2018A Installment Payment Dates or prepayment date or dates as the case may be; and

3. provision shall have been made for paying all fees and expenses of the Trustee, then and in that event, the right, title and interest of the Authority in the Installment Purchase Agreement and the obligations of the District thereunder shall, with respect to all or such portion of the Series 2018A Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the District to have such moneys and such Permitted Investments applied to the payment of such Series 2018A Installment Payments).

In such event, upon request of the District the Trustee shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and shall execute and deliver to the District all such instruments as may be necessary or desirable to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a total discharge and satisfaction, the Trustee shall pay over to the District, after payment of all amounts due the Trustee pursuant to the Indenture of Trust as an overpayment of Series 2018A Installment Payments, all such moneys or such Permitted Investments held by it pursuant to the Installment Purchase Agreement other than such moneys and such Permitted Investments, as are required for the payment or prepayment of the Series 2018A Installment Payments, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the payment of the Series 2018A Installment Payments and shall be applied by the Trustee to the payment of the Series 2018A Installment Payments of the District.

MISCELLANEOUS

Liability of District Limited. Notwithstanding anything contained in the Installment Purchase Agreement, the District shall not be required to advance any moneys derived from any source of income other than the Net Water Revenues and the other funds provided therein and in the Indenture for the payment of the Series 2018A Installment Payments or for the performance of any agreements or covenants required to be performed by it contained therein. The District may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the District for such purpose.

The obligation of the District to make the Series 2018A Installment Payments is a special obligation of the District payable solely from such Net Water Revenues and other funds described in the Installment Purchase Agreement, and does not constitute a debt of the District or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Benefits of Installment Purchase Agreement Limited to Parties. Nothing contained in the Installment Purchase Agreement, expressed or implied, is intended to give to any person other than the District or the Authority and its assigns any right, remedy or claim under or pursuant thereto, and any agreement or covenant required therein to be performed by or on behalf of the District or the Authority shall be for the sole and exclusive benefit of the other party.

Successor Is Deemed Included in all References to Predecessor. Whenever either the District or the Authority is named or referred to in the Installment Purchase Agreement, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the District or the Authority, and all agreements and covenants required thereby to be performed by or on behalf of the District or the Authority shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Waiver of Personal Liability. No director, officer or employee of the District shall be individually or personally liable for the payment of the Series 2018A Installment Payments, but nothing contained in the Installment Purchase Agreement shall relieve any director, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or thereby.

Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required by the Installment Purchase Agreement to be performed by or on the part of the District or the Authority shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity thereof. The District and the Authority declare that they would have executed the Installment Purchase Agreement, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase thereof irrespective of the fact that any one or more articles, sections,

paragraphs, subdivisions, sentences, clauses or phrases thereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Assignment. The Installment Purchase Agreement and all right, title and interest of the Authority under the Installment Purchase Agreement, including its right to receive the Series 2018A Installment Payments, shall be assigned by the Authority to the Trustee, pursuant to the Indenture of Trust with the express consent of the District.

Net Contract. The Installment Purchase Agreement shall be deemed and construed to be a net contract, and the District shall pay absolutely net during the term of the Installment Purchase Agreement the Installment Payments and all other payments required thereunder, free of any deductions and without abatement, diminution or set-off whatsoever.

Effective Date. The Installment Purchase Agreement shall become effective upon its execution and delivery, and shall terminate when the Purchase Price shall have been fully paid (or provision for the payment thereof shall have been made to the written satisfaction of the Authority and the Trustee.

Indemnification of Authority and Trustee. The District agrees to indemnify and hold harmless the Authority and the Trustee, and their directors, officers and employees if and to the extent permitted by law, from and against all claims, advances, damages and losses, including legal fees and expenses, arising out of or in connection with the acceptance or the performance of their duties under the Installment Purchase Agreement and under the Indenture of Trust; provided that no indemnification will be made for willful misconduct, negligence or breach of an obligation thereunder or under the Indenture of Trust by the Authority or the Trustee.

Amendments Permitted.

4. The Installment Purchase Agreement and the rights and obligations of the Authority and the District and of the Owners of the 2018A Bonds and of the Trustee may be modified or amended at any time by an amendment to the Installment Purchase Agreement which shall become binding when the written consent of the Insurer, so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy, shall have been filed with the Trustee. No such modification or amendment shall: (1) extend the stated maturities of the 2018A Bonds, or reduce the rate of interest represented thereby, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any premium payable on the prepayment thereof, without the consent of the owner of each 2018A Bond so affected; or (2) reduce the aforesaid percentage of Owners of 2018A Bonds whose consent is required for the execution of any amendment or modification of the Installment Purchase Agreement; or (3) modify any of the rights or obligations of the Trustee or the Authority without its written consent thereto.

5. The Installment Purchase Agreement and the rights and obligations of the Authority and the District and of the Owners of the 2018A Bonds may also be modified or amended but only with the prior written consent of the Insurer and to the extent permitted by law and only for any one or more of the following purposes:

(A) to add to the covenants and agreements of the Authority or the District contained in the Installment Purchase Agreement other covenants and agreements thereafter to be observed or to surrender any right or power reserved in the Installment Purchase Agreement to or conferred upon the Authority or the District, and which shall not adversely affect the interests of the Owners of the 2018A Bonds;

(B) to cure, correct or supplement any ambiguous or defective provision contained in the Installment Purchase Agreement or in regard to questions arising under the Installment Purchase Agreement, as the Authority or the District may deem necessary or desirable and which shall not adversely affect the interests of the Owners of the 2018A Bonds;

(C) to make such other amendments or modifications as may be in the best interests of the Owners of the 2018A Bonds; and

(D) to make any amendments or supplements necessary or appropriate to preserve or protect the exclusion of interest on the 2018A Bonds from gross income for federal income tax purposes under the Code or the exemption of such interest from State personal income taxes.

No amendment may modify any of the rights or obligations of the Trustee without the written consent of the Trustee thereto.

INDENTURE

DEFINITIONS; EQUAL SECURITY

Capitalized terms used in the Indenture and not otherwise defined therein shall have the respective meanings ascribed to such terms in the Installment Purchase Agreement. Unless the context otherwise requires, the terms defined in the Indenture shall for all purposes thereof and of any amendment thereof or supplement thereto and of the Bonds and of any certificate, opinion, request or other document mentioned therein have the meanings defined therein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined therein:

Annual Debt Service. The term “Annual Debt Service” means, for each Bond Year, the sum of (a) the interest payable on the Outstanding Bonds in such Bond Year, and (b) the principal amount of the Outstanding Bonds scheduled to be paid in such Bond Year.

Authority. The term “Authority” means the Palmdale Water District Public Financing Authority.

Authorized Denominations. The term “Authorized Denominations” means \$5,000 or any integral multiple thereof.

Bond Payment Fund. The term “Bond Payment Fund” means the fund by that name established pursuant to the Indenture.

Bond Year. The term “Bond Year” means each twelve month period extending from October 2 in one calendar year to October 1 of the succeeding calendar year, except in the case of the initial Bond Year which shall be the period from the Closing Date of the Bonds to September 1, 2018, both dates inclusive.

Bonds. The term “Bonds” means the Palmdale Water District Public Financing Authority Water Revenue Bonds, Series 2018A in the aggregate principal amount of \$_____.

Book-Entry System. The term “Book-Entry System” means the system maintained by the Securities Depository and described in the Indenture.

Business Day. The term “Business Day” means any day other than: (i) a Saturday or Sunday; or (ii) a day on which banks located in the District in which the Corporate Trust Office of the Trustee is located are authorized or required to remain closed; or (iii) a day on which The New York Stock Exchange is closed.

Certificate; Request. The term “Certificate” or “Request” means: (i) with respect to the District, an instrument in writing signed on behalf of the District by the District Manager, or by any other officer of the District duly authorized by the District Council to sign documents on its behalf with respect to the matters referred to therein; and (ii) with respect to the Issuer, by the Executive Director of the Issuer, or by any other officer of the Issuer duly authorized by the Board of Directors of the Issuer to sign documents on its behalf with respect to the matters referred to therein.

District Manager. The term “District Manager” means the District Manager of the District.

Code. The term “Code” means the Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations in effect with respect thereto.

Construction Fund. The Term “Construction Fund” means the fund by that name established in accordance with the Indenture.

Defeasance Securities. The term “Defeasance Securities” means: (1) cash, (2) non-callable direct obligations of the United States of America (“Treasuries”), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) subject to the prior written consent of the Insurer (so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy), pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively, and (5) subject to the prior written consent of the Insurer (so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy), securities eligible for “AAA” defeasance under then existing criteria of S&P.

Delivery Date. The term “Delivery Date” means the date of the delivery of the Bonds to the initial purchaser thereof.

Depository. The term “Depository” means DTC or another recognized securities depository selected by the Issuer which maintains a book-entry system for the Bonds.

District. The term “District” means the Palmdale Water District.

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

Event of Default. The term “Event of Default” means an Event of Default as defined in the Installment Purchase Agreement.

Executive Director. The term “Executive Director” means the Executive Director of the Issuer.

Favorable Opinion of Special Counsel. The term “Favorable Opinion of Special Counsel” means an opinion of Special Counsel addressed to the District and the Trustee to the effect that an action proposed to be taken is not prohibited by the laws of the State or the Indenture and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

Fitch. The term “Fitch” means Fitch Ratings, Inc., its successors and assigns.

Hazardous Substances. The term “Hazardous Substances” means any hazardous substances, wastes, pollutants or contaminants now or later included in such (or any similar) term under any federal, state, or local statute, code, ordinance or regulation now in effect or later enacted or amended.

Independent Certified Public Accountant. The term “Independent Certified Public Accountant” means any form of certified public accountants appointed by the Issuer which is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

General Manager. The term “General Manager” means the General Manager of the District.

Indenture. The term “Indenture” means the Indenture of Trust executed and entered into as of ____ 1, 2018 by and between the Trustee and the Issuer, as originally executed and entered into and as it may from time to time be amended or supplemented in accordance therewith.

Information Services. The term “Information Services” means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the District may specify in a Certificate to the Trustee and as the Trustee may select.

Installment Payment Date. The term “Installment Payment Date” means each date on which Installment Payments are scheduled to be paid by the District pursuant to the Installment Purchase Agreement.

Installment Payments. The term “Installment Payments” means the installment payments payable by the District pursuant to the Installment Purchase Agreement and in the amounts and at the times set forth in the Installment Purchase Agreement.

Installment Purchase Agreement. The term “Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of ____ 1, 2018, by and between the District and the Issuer, as originally executed or as it may from time to time be amended or supplemented in accordance with its terms.

Insurance Policy. The term “Insurance Policy” means the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds when due.

Insurer. The term “Insurer” means _____, or any successor thereto or assignee thereof.

Interest Account. The term “Interest Account” means the account by that name established pursuant to the Indenture.

Interest Payment Date. The term “Interest Payment Date” means April 1 and October 1 of each year, commencing _____.

Issuance Costs. The term “Issuance Costs” means all the costs of issuing and delivering the Bonds, including, but not limited to, all printing and document preparation expenses in connection with the Indenture, the Installment Purchase Agreement, the Bonds and any preliminary official statement and final official statement pertaining to the Bonds, rating agency fees, CUSIP Service Bureau charges, market study fees, legal fees and expenses of counsel with the issuance and delivery of the Bonds, the initial fees and expenses of the Trustee, and its counsel and other fees and expenses incurred in connection with the issuance and delivery of the Bonds, to the extent such fees and expenses are approved by the District.

Issuance Costs Fund. The term “Issuance Costs Fund” means the fund by that name established pursuant to the Indenture.

Issuer. The term “Issuer” means the Palmdale Water District Public Financing Authority, a joint powers authority duly organized and existing under and by virtue of the laws of the State of California.

Letter of Representations. The term “Letter of Representations” means the letter of the District and the Trustee delivered to and accepted by the Depository on or prior to delivery of the Bonds as book-entry certificates setting forth the basis on which the Depository serves as depository for such book-entry certificates, as originally executed or as it may be supplemented or revised or replaced by a letter from the District and the Trustee delivered to and accepted by the Depository.

Maturity Date. The term “Maturity Date” means October 1 of each year commencing in 20__ and ending in 20__.

Maximum Annual Debt Service. The term “Maximum Annual Debt Service” means, as of the date of any calculation, the largest Annual Debt Service during the current or any future Bond Year.

Moody’s. The term “Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency (other than S&P) designated by the Issuer by written notice to the Trustee.

Nominee. The term “Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

Outstanding. The term “Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds except: (i) Bonds canceled by the Trustee or delivered to the Trustee for cancellation; (ii) Bonds paid or deemed to have been paid within the meaning of the Indenture; and (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

Owner. The term “Owner” or “Bond Owner” or “Owner of Bonds” or any similar term, when used with respect to the Bonds, means any person who shall be the registered owner of any Outstanding Bond.

Participant. The term “Participant” means, with respect to DTC or another Securities Depository, a member of or participant in DTC or such other Securities Depository, respectively.

Person. The term “Person” means a natural person or any legal entity.

Permitted Investments. The term “Permitted Investments” means any of the following, if and to the extent permitted by law and by any policy guidelines promulgated by the Issuer (provided that the Trustee shall be entitled to rely upon any investment directions from the Issuer as conclusive certification to the Trustee that the investments described therein comply with any policy guidelines promulgated by the Issuer and are so authorized under the laws of the State of California):

The following obligations may be used as Permitted Investments for all purposes, including defeasance investments in refunding escrow agreements.

- (a) Cash (insured at all times by the Federal Deposit Insurance Corporation); and
- (b) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including: U.S. treasury obligations; All direct or fully guaranteed obligations; Farmers Home Administration; General Services Administration; Guaranteed Title XI financing; Government National Mortgage Association (GNMA); and State and Local Government Series.

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

The following obligations may be used as Permitted Investments for all purposes other than defeasance investments in refunding escrow accounts.

- (c) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: Export-Import Bank; Rural Economic Community

Development Administration; Federal Farm Credit Bureau; U.S. Maritime Administration; Small Business Administration; U.S. Department of Housing & Urban Development (PHAs); and Federal Housing Administration and Federal Financing Bank;

(d) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC); Obligations of the Resolution Funding Corporation (REFCORP); Senior debt obligations of the Federal Home Loan Bank System; and Senior debt obligations of other Government Sponsored Agencies;

(e) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which may include the Trustee and its affiliates which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(f) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's or "A-1" by S&P and which matures not more than 270 calendar days after the date of purchase;

(g) Investments in a money market fund rated "AAm", "AAAm" or "AAAm-G" or better by S&P, including such funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services or for which the Trustee or an affiliate of the Trustee serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives and retains a fee for services provided to the fund, (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee;

(h) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice:

(1) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or

(2) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (b) above, which escrow may be applied only to the payment of such principal and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(i) Municipal Obligations rated "Aaa/AAA" or general obligations of States with a rating of "A2/A" or higher by both Moody's and S&P;

(j) Investment Agreements (supported by appropriate opinions of counsel);

(k) the Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name;

- (l) Local Government Investment Pools (LGIP). Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code §6509.7. To be eligible for purchase, the pool must meet the requirements of CGC §53601(p); and
- (m) Certificates of deposit insured by the Federal Deposit Insurance Corporation.

The value of the above investments shall be determined as follows:

- (a) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at cost;
- (b) As to certificates of deposit and bankers' acceptances: the face amount thereof, plus, accrued interest thereon; and
- (c) As to any investment not specified above: the value thereof established by prior agreement among the Issuer and the Trustee.

Principal Account. The term "Principal Account" means the account by that name established pursuant to the Indenture.

Principal Corporate Trust Office. The term "Principal Corporate Trust Office" means the principal corporate trust office of the Trustee in Los Angeles, California, or such other office as the Trustee may from time to time designate in writing to the District, the Issuer and the Owners except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

Project. The term "Project" has the meaning given in the Installment Purchase Agreement.

Project Costs. The term "Project Costs" means all costs of acquiring, constructing and installing the Project, including, but not limited to:

- (a) all costs which the Issuer or the District shall be required to pay to a seller or any other person under the terms of any contract or contracts for the purchase of the Project;
- (b) all costs which the Issuer or the District shall be required to pay a contractor or any other person for the acquisition, construction and installation of the Project;
- (c) obligations of the Issuer or the District incurred for services (including obligations payable to the Issuer or the District for actual out-of-pocket expenses of the Issuer or the District) in connection with the acquisition, construction and installation of the Project, including reimbursement to the Issuer or the District for all advances and payments made in connection with the Project prior to or after delivery of the Bonds;
- (d) the actual out-of-pocket costs of the Issuer or the District for surveys, estimates and preliminary investigations therefor, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the Project, including administrative expenses relating to the acquisition, construction and installation of the Project; and
- (e) any sums required to reimburse the Issuer or the District for advances made by the Issuer or the District for any of the above items or for any other costs incurred and for work done by the Issuer or the District which are properly chargeable to the Project.

Rebate Fund. The term “Rebate Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

Record Date. The term “Record Date” means the fifteenth (15th) day of the month immediately preceding an Interest Payment Date whether or not such day is a Business Day.

Redemption Account. The term “Redemption Account” means the account by that name established pursuant to the Indenture.

Redemption Price. The term “Redemption Price” means, with respect to any Bond (or portion thereof), the principal amount with respect to such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

Reserve Fund. The term “Reserve Fund” means the fund by that name established pursuant to the Indenture.

Reserve Requirement. The term “Reserve Requirement” means, with respect to the Bonds, as of any date of calculation, an amount not to exceed the lesser of (i) Maximum Annual Debt Service, (ii) 125% of average Annual Debt Service, or (iii) 10% of the principal amount of such Bonds then outstanding. Notwithstanding the foregoing, in no event shall the Reserve Requirement exceed \$_____, the initial Reserve Requirement.

Reserve Surety Policy. The term “Reserve Surety Policy” means the municipal bond debt service reserve insurance policy issued by the Insurer and deposited in the Reserve Fund to satisfy the Reserve Requirement.

Revenues. The term “Revenues” means amounts received by the Issuer pursuant to or with respect to the Installment Purchase Agreement and all interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture.

Securities Depository. The term “Securities Depository” means DTC or, if applicable, any successor securities depository appointed pursuant to the Indenture.

S&P. The term “S&P” means S&P Global Ratings, a Standard & Poor’s Financial Services, LLC business, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “S&P” will be deemed to refer to any other nationally recognized securities rating agency (other than Moody’s) designated by the Issuer by written notice to the Trustee.

Special Counsel. The term “Special Counsel” means any attorney at law or firm of attorneys selected by the District, of nationally-recognized standing in matters pertaining to the federal tax exemption of interest with respect to obligations of states and political subdivisions.

State. The term “State” means the State of California.

Statement of the Issuer or the District. The term “Statement of the Issuer or the District” means a statement signed by or on behalf of: (i) the Issuer by its Chair, Treasurer or Executive Director; or (ii) the District by the President, General Manager or the Finance Director or by any two persons (whether or not officers of the District) who are specifically authorized by resolution of the District to sign or execute such a document on its behalf.

Tax Certificate. The term “Tax Certificate” means the Tax Certificate dated the date of initial issuance of the Bonds, concerning certain matters pertaining to the use and investment of proceeds of the

Bonds executed by and delivered to the District on the date of execution and delivery of the Bonds, including any and all exhibits attached thereto.

Term Bonds. The term “Term Bonds” means the Bonds maturing on October 1, 20__ which are subject to mandatory sinking fund redemption.

Trustee. The term “Trustee” means The Bank of New York Mellon Trust Company, N.A., a national banking association, duly organized and existing under and by virtue of the laws of the United States, having a principal corporate trust office in Los Angeles, California, or its successor as Trustee under the Indenture.

Written Consent of the Issuer or the District; Written Order of the Issuer or the District; Written Request of the Issuer or the District; Written Requisition of the Issuer or the District. The terms “Written Consent of the Issuer or the District,” “Written Order of the Issuer or the District,” “Written Request of the Issuer or the District,” and “Written Requisition of the Issuer or the District” mean, respectively, a written consent, order, request or requisition signed by or on behalf of: (i) the Issuer by its Chair, Treasurer, Executive Director; or (ii) the District by the President, General Manager or its Finance Director, or by any two persons who are specifically authorized by resolution of the District to sign or execute such a document on its behalf.

Equal Security. In consideration of the acceptance of the Bonds by the Owners, the Indenture shall be deemed to be and shall constitute a contract between the Trustee and the Owners to secure the full and final payment of the interest and principal and redemption premiums, if any, on the Bonds, subject to the agreements, conditions, covenants and terms contained in the Indenture, including without limitation the terms included in thereof; and all agreements, conditions, covenants and terms contained therein required to be observed or performed by or on behalf of the Trustee shall be for the equal and proportionate benefit, protection and security of all Owners without distinction, preference or priority as to benefit, protection or security of any Bonds over any other Bonds by reason of the number or date thereof or the time of sale, execution or delivery thereof or otherwise for any cause whatsoever, except as expressly provided therein or therein.

REDEMPTION OF BONDS

Selection of Bonds To Be Redeemed. If any Bond is in a denomination larger than a minimum Authorized Denomination, a portion of such Bonds (the minimum Authorized Denomination or any integral multiple thereof) may be redeemed pursuant to the indenture, in which case the Trustee shall, without charge to the Owner, authenticate and issue a replacement Bond or Bonds for the unredeemed portion thereof. In the case of a partial redemption of Bonds, the Trustee shall select the Bonds to be redeemed by lot at such times as directed by the District in writing at least thirty (30) days prior to the redemption date and if such selection is more than sixty (60) days before a redemption date, shall appropriately identify the Bonds so called for redemption by stamping them at the time any Bonds so selected for redemption is presented to the Trustee for stamping or for transfer or exchange, or by such other method of identification as is deemed adequate by the Trustee, and any Bond or Bonds issued in exchange for, or to replace, any Bond so called for prior redemption shall likewise be stamped or otherwise identified.

Notice of Redemption. The District shall notify the Trustee at least forty-five (45) days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee) prior to the redemption date for Bonds pursuant to the Indenture. Notice of redemption shall be mailed by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, (i) to the respective Owners of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee by first-class mail, (ii) to the Securities Depository by facsimile and by first-class mail, and (iii) to the Municipal Securities Rulemaking Board. Notice of redemption shall be given in the form and in accordance with the terms of the Indenture.

Each such notice of redemption will state the date of notice, the redemption date, the place or places of redemption and the Redemption Price, will designate the maturities, CUSIP numbers, if any, and, if less than all of any such maturity is to be redeemed, the serial numbers of the Bonds of such maturity to be redeemed by giving the individual number of each Bond or by stating that all Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal thereof in the case of a Bond to be redeemed in part only, together with interest accrued with respect thereto to the redemption date, and that (provided that moneys for redemption have been deposited with the Trustee) from and after such redemption date interest thereon ceases to accrue, and will require that such Bond be then surrendered to the Trustee. Any failure to receive such notice or any defect in the notice or the mailing will not affect the validity of the redemption of any Bond.

With respect to any notice of optional redemption of Bonds, such notice shall state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such Bonds to be redeemed and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Trustee shall not be required to redeem such Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption shall not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Issuer shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the District, a new Bond of Authorized Denominations, and of the same Maturity Date and interest rate, equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

Effect of Redemption of Bonds. If notice of redemption having been duly given pursuant to the Indenture, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption is held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice together with interest accrued thereon to the date fixed for redemption, interest on the Bonds so called for redemption shall cease to accrue, the Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Owners of the Bonds shall have no rights in respect thereof except to receive payment of the Redemption Price and accrued interest. Any defect as failure to receive notice shall not affect the sufficiency of the proceedings of redemption.

All Bonds redeemed pursuant to the Indenture shall be cancelled upon surrender thereof and destroyed.

INSTALLMENT PAYMENTS

Assignment of Revenues. The Issuer, for good and valuable consideration, does unconditionally grant, transfer and assign to the Trustee without recourse all its rights to receive the Revenues and enforce the Installment Purchase Agreement upon an event of default thereunder for the benefit of the Owners of the Bonds, for the purpose of securing: (a) the payment of all sums due and owing to the Owners of the Bonds under the terms of the Indenture; and (b) the observance, performance and discharge of each agreement, condition, covenant and term of the District contained in the Installment Purchase Agreement, and the Trustee accepts such assignment.

All Installment Payments shall be paid directly by the District to the Trustee, and all Installment Payments received by the Trustee shall be held in trust by the Trustee under the terms of the Indenture for the

benefit of the District until deposited in the funds provided in the Indenture, whereupon such money shall be held in trust in such funds by the Trustee for the benefit of the Owners.

Deposit of Revenues. The Trustee shall deposit all Revenues paid to it into the Bond Payment Fund and shall transfer such funds to the Interest Account, Principal Account, Sinking Account and the Redemption Account in the manner and at the times later provided. The Bond Payment Fund (and all accounts contained therein) shall be maintained so long as any Bonds are Outstanding. All moneys in the Bond Payment Fund (and the accounts contained therein) shall be disbursed only for the purposes and uses later authorized; provided, that any money in such fund or accounts not required to pay the principal and interest and redemption premiums, if any, on the Bonds shall on the Business Day immediately following each Interest Payment Date, be transferred first to the Reserve Fund to replenish amounts therein to the Reserve Requirement and/or to reimburse the Insurer for amounts owed, and second to the Issuer to be used for any lawful purpose of the Issuer.

1. Interest Account. On or prior to each Interest Payment Date, the Trustee shall transfer to the Interest Account that amount of money representing the portion of the Revenues constituting the interest becoming due and payable on such Interest Payment Date. All money in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds on their respective Interest Payment Dates.

2. Principal Account. On or prior to each maturity date (commencing on October 1, ____), the Trustee shall transfer to the Principal Account that amount of money representing the portion of the Revenues constituting the principal becoming due and payable on such maturity date. All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal on the Bonds on their respective maturities. Notwithstanding the foregoing, no principal payments shall be made on the Term Bonds from the Principal Account.

3. Sinking Account. On or prior to each date on which the Term Bonds are subject to mandatory sinking fund redemption, the Trustee shall transfer to the Sinking Account that amount of money representing the portion of the Revenues constituting the principal becoming due and payable on such date. All money in the Sinking Account shall be used and withdrawn by the Trustee solely for the purpose of paying the mandatory sinking fund redemption of the Term Bonds as they become due and payable.

4. Redemption Account. Any prepayments paid to the Trustee pursuant to the Installment Purchase Agreement shall immediately be transferred to the Redemption Account. All money in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest and principal and redemption premiums, if any, on the Bonds to be redeemed on their respective optional or mandatory redemption dates.

Rebate Fund.

1. Establishment. The Trustee shall establish a separate fund designated the "Rebate Fund." Absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Bonds will not be adversely affected, the Issuer shall cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Indenture and the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund shall be governed by the Indenture and the Tax Certificate for the Bonds, unless and to the extent that the Issuer delivers to the Trustee an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Bonds will not be adversely affected if such requirements are not satisfied.

(A) Computation. Within 55 days of the end of each Bond Year (as such term is defined in the Tax Certificate), the Issuer shall calculate or cause to be calculated the amount of rebatable

arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (e.g., the temporary investments exception of Section 148(f)(4)(B) and the construction expenditure exception of Section 148(f)(4)(C) of the Code or Section 1.148-7(d) of the Treasury Regulations), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the “1½% Penalty”) has been made), for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the “Rebatable Arbitrage”). The Issuer shall obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the Indenture.

(B) Transfer. Within 55 days of the end of the fifth Bond Year, upon the written request of the Issuer, an amount shall be deposited to the Rebate Fund by the Trustee from any Revenues legally available for such purpose (as specified by the Issuer in the aforesaid written Request), if and to the extent required so that the balance in the Rebate Fund shall equal the amount of Rebatable Arbitrage so calculated in accordance with the Indenture. In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon written Request of the Issuer, the Trustee shall withdraw the excess from the Rebate Fund and then credit the excess to the Bond Payment Fund.

(C) Payment to the Treasury. The Trustee shall pay, as directed by Request of the Issuer, to the United States Treasury, out of amounts in the Rebate Fund,

not later than 60 days after the end of (X) the fifth Bond Year, and (Y) each applicable fifth Bond Year thereafter, an amount that, together with all previous rebate payments, is equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year; and

not later than 60 days after the payment of all the Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the date of such payment and any income attributable to the Rebatable Arbitrage determined to be due and payable, computed in accordance with Section 1.148-3 of the Treasury Regulations.

In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the Issuer shall calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to the Indenture shall be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and shall be accompanied by an Internal Revenue Service Form 8038-T prepared by the Issuer, or shall be made in such other manner as provided under the Code.

2. Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after redemption and payment in full of the Bonds and the payments described in the Indenture being made may be withdrawn by the Issuer upon written direction of the Issuer to the Trustee and utilized in any manner by the Issuer.

3. Survival of Defeasance. Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the requirements of the Indenture shall survive the defeasance or payment in full of the Bonds.

4. Recordkeeping. The Issuer shall retain records of all determinations made under the Indenture until six years after the complete retirement of the Bonds.

The Trustee shall not be responsible for calculating rebate amounts or for the adequacy or correctness or any rebate report or rebate calculations. The Trustee shall be deemed conclusively to have complied with

the provisions of the Indenture regarding calculation and payment of rebate if it follows the directions of the Issuer and it shall have no independent duty to review or such calculations or enforce compliance with such rebate requirements.

Reserve Fund. The Trustee shall establish and hold in trust the Reserve Fund. The District shall cause the Reserve Surety Policy to be deposited in the Reserve Fund and the Trustee shall draw upon the Reserve Surety Policy in accordance with the Indenture.

As long as the Reserve Surety Policy shall be in full force and effect, and the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy, the Issuer and Trustee agree to comply with the following provisions:

(a) In the event and to the extent that moneys on deposit in the Payment Fund, plus all amounts on deposit in and credited to the Reserve Fund in excess of the amount of the Reserve Surety Policy, are insufficient to pay the amount of principal and interest coming due, then upon the later of: (i) one (1) Business Day after receipt by the Insurer of a Notice of Nonpayment (as such terms are defined in the Reserve Surety Policy), duly executed by the Trustee certifying that payment due under the Indenture has not been made to the Trustee; or (ii) the Interest Payment Date, the Insurer will make a deposit of funds in an account with the Trustee or its successor sufficient for the payment to the Trustee of amounts which are then due to the Trustee under the Indenture up to but not in excess of the Policy Limit, as defined in the Reserve Surety Policy; provided, however, that in the event that the amount on deposit in, or credited to, the Reserve Fund, in addition to the amount available under the Reserve Surety Policy, includes amounts available under a letter of credit, insurance policy, reserve surety policy or other such funding instrument (the "Additional Funding Instrument"), draws on the Reserve Surety Policy and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency.

(b) The Issuer shall repay any draws under the Reserve Surety Policy and pay all related reasonable expenses incurred by the Insurer. Interest shall accrue and be payable on such draws and expenses from the date of payment by the Insurer at the Late Payment Rate. "Late Payment Rate" means the lesser of: (i) the greater of: (A) the per annum rate of interest, publicly announced from time to time by JP Morgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such change is announced by JP Morgan Chase Bank) plus 3%; and (B) the then applicable highest rate of interest on the Bonds; and (ii) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event that JP Morgan Chase Bank ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such national bank as the Insurer shall specify.

(c) Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, "Policy Costs") shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

(d) Amounts in respect of Policy Costs paid to the Insurer shall be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to the Insurer on account of principal due, the coverage under the Reserve Surety Policy will be increased by a like amount, subject to the terms of the Reserve Surety Policy.

(e) All cash and investments in the Reserve Fund shall be transferred to the Payment Fund for payment of the principal of and interest on the Bonds before any drawing may be made on the Reserve Surety Policy or any other credit facility credited to the Reserve Fund in lieu of cash ("Credit Facility"). Payment of any Policy Costs shall be made prior to replenishment of any such cash amounts. Draws on all Credit Facilities (including the Reserve Surety Policy) on which there is available coverage shall be made on a pro-

pro rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to other Credit Facilities shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Fund. For the avoidance of doubt, "available coverage" means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

(f) If the Issuer shall fail to pay any Policy Costs in accordance with the requirements of the Indenture, the Insurer shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Indenture other than: (i) acceleration of the maturity of the payments of principal of and interest on the Bonds; or (ii) remedies which would adversely affect Owners of the Bonds.

(g) The Trustee shall ascertain the necessity for a claim upon the Reserve Surety Policy in accordance with the provisions of the Indenture and provide notice to the Insurer in accordance with the terms of the Reserve Surety Policy at least five (5) Business Days prior to an Interest Payment Date. Where deposits are required to be made by the District with the Trustee to the Bond Payment Fund for the payment of principal of and interest on the Bonds more often than semi-annually, the Trustee shall be instructed to give notice to the Insurer of any failure of the Issuer to make timely payment in full of such deposits within two Business Days of the date due.

So long as the Reserve Surety Policy is in full force and effect and the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy, future deposits of a surety in the Reserve Fund shall require the prior written consent of the Insurer. Notwithstanding anything to the contrary, amounts on deposit in the Reserve Fund shall be applied solely to the payment of debt service on the Bonds.

Claims upon the Insurance Policy and Payments by and to the Insurer. If, on the third Business Day prior to the related scheduled interest payment date or principal payment date ("Payment Date") there is not on deposit with the Trustee, after making all transfers and deposits required under this Indenture, moneys sufficient to pay the principal of and interest on the Bonds due on such Payment Date, the Trustee shall give notice to the Insurer and to its designated agent (if any) (the "Insurer's Fiscal Agent") by telephone or email of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Bonds due on such Payment Date, the Trustee shall make a claim under the Insurance Policy and give notice to the Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Bonds and the amount required to pay principal of the Bonds, confirmed in writing to the Insurer and the Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

The Trustee shall designate any portion of payment of principal on the Bonds paid by the Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of the Bonds registered to the then current Owner, whether DTC or its nominee or otherwise, and shall issue a replacement Bond to the Insurer, registered in the name of the Insurer, in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Bond shall have no effect on the amount of principal or interest payable by the District on any Bond or the subrogation rights of the Insurer.

The Trustee shall keep a complete and accurate record of all funds deposited by the Insurer into the Policy Payments Account (defined below) and the allocation of such funds to payment of interest on and principal of any Bond. The Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

Upon payment of a claim under the Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of Owners referred to herein as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Insurance Policy in trust on behalf of Owners and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to Owners in the same manner as principal and interest payments are to be made with respect to the Bonds under the sections hereof regarding payment of the Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay the principal of and interest on the Bonds with other funds available to make such payments. Notwithstanding anything in the Indenture to the contrary, the District agrees to pay to the Insurer (i) a sum equal to the total of all amounts paid by the Insurer under the Insurance Policy (the "Insurer Advances"); and (ii) interest on such Insurer Advances from the date paid by the Insurer until payment thereof in full, payable to the Insurer at the Late Payment Rate per annum (collectively, the "Insurer Reimbursement Amounts"). The District hereby covenants and agrees that the Insurer Reimbursement Amounts are secured by a lien on and pledge of the Revenues and payable from such Revenues on a parity with the payments of principal of and interest on the Bonds.

Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. Any funds remaining in the Policy Payments Account following an Interest Payment Date shall promptly be remitted to the Insurer.

Payments by the Insurer as a Result of Nonpayment. The Insurer shall be entitled to pay principal or interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the District (as such terms are defined in the Insurance Policy) and any amounts due on the Bonds as a result of acceleration of the maturity thereof in accordance with this Indenture, whether or not the Insurer has received a Notice of Nonpayment (as such terms are defined in the Insurance Policy) or a claim upon the Insurance Policy.

COVENANTS

Compliance with Indenture and Installment Purchase Agreement. The Issuer will not execute and the Trustee will not authenticate or deliver any Bonds in any manner other than in accordance with the provisions of the Indenture; and the Issuer will not suffer or permit any default by it to occur under the Indenture, but will faithfully observe and perform all the agreements, conditions, covenants and terms contained therein required to be observed and performed by it.

The Issuer will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Agreement required to be observed and performed by the Issuer, and will enforce such agreements against the other party thereto in accordance with their terms.

Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on Bonds will not be adversely affected for federal income tax purposes, the Issuer covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

1. Private Activity. The Issuer will take no action or refrain from taking any action or make any use of the proceeds of the Bonds or of any other moneys or property which would cause the Bonds to be "private activity bonds" within the meaning of Section 141 of the Code;

2. Arbitrage. The Issuer will make no use of the proceeds of the Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code;

3. Federal Guaranty. The Issuer will make no use of the proceeds of the Bonds or take or omit to take any action that would cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

4. Information Reporting. The Issuer will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code;

5. Hedge Bonds. The Issuer will make no use of the proceeds of the Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause either the Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the Issuer takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the Bonds for federal income tax purposes; and

6. Miscellaneous. The Issuer will take no action or refrain from taking any action inconsistent with its expectations stated in that certain Tax Certificate executed by the Issuer in connection with each issuance of Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture.

Prosecution and Defense of Suits. The Issuer will defend against every action, suit or other proceeding at any time brought against the Trustee, the Issuer or any Owner upon any claim arising out of the receipt, deposit or disbursement of any of the Installment Payments or involving any rights or obligations of the Trustee, the Issuer or any Owner under the Indenture; provided, that the Trustee, the Issuer or any Owner at its, his or her election may appear in and defend any such action, suit or other proceeding. The Issuer will indemnify and hold harmless the Trustee and the Owners against any and all liability claimed or asserted by any person arising out of any such receipt, deposit or disbursement, and will indemnify and hold harmless the Owners against any attorneys’ fees or other expenses which any of them may incur in connection with any litigation or otherwise in connection with the foregoing to which any of them may become a party in order to enforce their rights under the Indenture or under the Bonds; provided that such litigation shall be concluded favorably to such Owners’ contentions therein.

Accounting Records and Statements. The Trustee shall keep proper books of record and account in accordance with corporate trust industry standards in which complete and correct entries shall be made of all transactions made by the Trustee relating to the receipt, investment, disbursement, allocation and application of the Revenues and the proceeds of the Bonds. Such records shall be open to inspection by the Issuer and by any Owner at any reasonable time during regular business hours on reasonable notice. Not later than the fifteenth (15th) day of each month, commencing on the first calendar month after the initial issuance of the Bonds, and continuing so long as any Bonds are Outstanding, the Trustee will furnish to the Issuer and to the District a complete statement covering the receipts, deposits and disbursements of the funds held by the Trustee under the Indenture for the preceding month; provided that the Trustee shall not be obligated to provide an accounting for any fund or account that: (a) has a balance of \$0.00; and (b) has not had any activity since the last reporting date.

Further Assurances. Whenever and so often as requested to do so by the Trustee or any Owner, the Issuer will promptly execute and deliver, or cause to be executed and delivered, all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners the benefit, protection and security conferred, or intended to be conferred, upon them by the Indenture.

DEFAULT AND LIMITATIONS OF LIABILITY

Events of Default. The following events shall be Events of Default under the Indenture:

1. Default by the Issuer in the due and punctual payment of the principal of any Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

2. Default by the Issuer in the due and punctual payment of any installment of interest on any Bonds when and as the same shall become due and payable.

3. Default by the Issuer in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Issuer by the Trustee or by the Owners of a majority in aggregate principal amount of Bonds Outstanding; provided, however, that if in the reasonable opinion of the Issuer the default stated in the notice can be corrected, but not within such sixty (60) day period and corrective action is instituted by the Issuer, with the written approval of the Insurer (so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy), within such sixty (60) day period and diligently pursued in good faith until the default is corrected such failure shall not become an Event of Default.

4. The Issuer shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Issuer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Issuer or of the whole or any substantial part of its property.

Remedies Upon Event of Default. If any Event of Default specified in the Indenture shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee shall, with the written consent of the Insurer (so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy), which consent shall be at the sole discretion of the Insurer, and for any other Event of Default, the Trustee may, with the written consent of the Insurer (so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy), which consent shall be at the sole discretion of the Insurer, in each case upon written notice writing to the Issuer, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Issuer shall deposit with the Trustee a sum sufficient to pay all the principal of and interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds to the extent permitted by law, and the reasonable charges and expenses of the Trustee, and any and all other Events of Default 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) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case the Trustee shall, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment shall extend to or shall affect any subsequent Event of Default, or shall impair or exhaust any right or power consequent thereon.

Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

1. To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

2. To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of the Indenture, in the following order of priority:

First: To the payment to the persons entitled thereto of all interest then due in the order of the due date of such interest, and, if the amount available shall not be sufficient to pay in full any interest due on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate of two hundred (200) basis points above the interest rate per annum on such overdue principal, and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bond Owners. Subject to the Indenture, the Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds or the Indenture and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power therein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Bonds or the Indenture or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Notwithstanding anything contained in the Indenture, the Trustee shall have no security interest in or mortgage on the Project, any property of the District or other assets or property thereof and no default thereunder shall result in the loss of the Project, any property of the District or other assets or property thereof.

Bond Owners' Direction of Proceedings. Subject to the Indenture, anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conduct in all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall

have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bond Owners not parties to such direction.

Limitation on Bond Owners' Right to Sue. No Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Installment Purchase Agreement or any other applicable law with respect to such Bonds, unless: (a) such Owners shall have 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 the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers previously granted or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have failed to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; (e) no direction inconsistent with such written request shall have been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding; and (f) such suit, action or proceeding is instituted subject to the Indenture.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture, the Installment Purchase Agreement or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner therein provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Issuer. Nothing in the Indenture or in the Bonds contained shall affect or impair the obligation of the Issuer, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Revenues and other assets therein pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bond Owners, then in every such case the Issuer, the Trustee and the Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Issuer, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or later existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein; provided, however, that every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Insurer Rights. The Insurer shall be deemed to be the sole holder of the Bonds insured under the Insurance Policy for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Bonds insured by it are entitled to take pursuant to the Indenture pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee. In each case in which notice or other communication to the Insurer refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the attention of the General Counsel and shall be marked to indicate "URGEN MATERIAL ENCLOSED."

THE TRUSTEE

Employment and Duties of the Trustee. The Issuer appoints and employs the Trustee to receive, deposit and disburse the Revenues as provided in the Indenture, to prepare, authenticate, deliver, transfer, exchange and cancel the Bonds as provided therein, to pay the interest and principal and redemption premiums, if any, on the Bonds to the Owners thereof as provided therein, and to perform the other obligations contained therein; all in the manner provided therein and subject to the conditions and terms thereof. By executing and delivering the Indenture, the Trustee undertakes to perform such obligations (and only such obligations) as are specifically set forth therein, and no implied obligations shall be read therein against the Trustee.

Removal and Resignation of the Trustee. The Issuer may at any time, as long as an Event of Default, or an event which with notice or passage of time or both would become an Event of Default, has not occurred and is continuing, and shall, after any breach by the Trustee under the Indenture, remove the Trustee initially a party thereto and any successor thereto by giving written notice of such removal to the Trustee, and by giving notice by mail in accordance with the Indenture of such removal to all Owners of Bonds, and the Trustee initially a party thereto and any successor thereto may at any time resign by giving written notice of such resignation to the Issuer and the District and by giving notice by mail in accordance with the Indenture of such resignation to all Owners of Bonds. Upon giving any such notice of removal or upon receiving any such notice of resignation, the Issuer shall promptly appoint a successor Trustee by an instrument in writing; provided, that in the event the Issuer and the District do not appoint a successor Trustee within sixty (60) days following the giving of any such notice of removal or the receipt of any such notice of resignation, the removed or resigning Trustee may petition any appropriate court having jurisdiction to appoint a successor Trustee. No removal, resignation or termination of the Trustee shall take effect until a successor trustee shall be appointed. Any successor Trustee shall be a bank, national banking association with trust powers or trust company doing business and having a principal corporate trust office in the United States of America, having (or if such bank, national banking association or trust company is a member of a bank holding company system, its bank holding company has) a combined capital, (exclusive of borrowed capital) and surplus of at least seventy-five million dollars (\$75,000,000), unless the District consents to a lesser amount therefor, and shall be subject to supervision or examination by state or national authorities. If such bank, national banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Indenture the combined capital and surplus of such bank, national banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Any removal or resignation of a Trustee and appointment of a successor Trustee shall become effective only upon the acceptance of the appointment by the successor Trustee.

Compensation and Indemnification of the Trustee. The Issuer shall from time to time, subject to any agreement then in effect with the Trustee, pay the Trustee reasonable compensation for its services and reimburse the Trustee for all its reasonable advances and expenditures under the Indenture, including, but not limited to, advances to and the reasonable fees and expenses of accountants, agents, appraisers, consultants, counsel or other experts employed by it in the observance and performance of its rights and obligations thereunder; provided, except as otherwise provided therein, that the Trustee shall not have any lien for such compensation or reimbursement against any money held by it in any of the funds established thereunder, although the Trustee may take whatever legal actions are available to it directly against the Issuer to recover

such compensation or reimbursement. To the extent permitted by law, the Issuer assumes liability for, and agree to defend, indemnify, protect, save and keep harmless, the Trustee and its directors, officers and employees and its successors and assigns from and against any and all liabilities, obligations, losses, damages (including consequential damages incurred by others), taxes and impositions, penalties, fines, claims, actions, suits, costs and expenses and disbursements (including legal fees and expenses) of whatsoever kind and nature imposed in, asserted against or incurred or suffered by the Trustee or its directors, officers or employees or its successors and assigns in any way relating to or arising out of (i) the condition, management, maintenance or use of or from any work done in connection with the Water System by the District including, the use, storage, preserve, disposal or release of any Hazardous Substances in or about the Water System, (ii) any act of negligence of the District or of any of its agents, contractors, directors, employees, invitees, licensees or officers in connection with the Water System, (iii) the authorization of the payment to any costs or expenses of the acquisition and construction of the Project, or (iv) the exercise of any rights or obligations of the Trustee under the Indenture; provided, that no indemnification will be made for willful misconduct or negligence thereunder by the Trustee.

The Trustee's rights to immunities and protection from liability under the Indenture and its rights to payment of its fees and expenses shall survive its resignation or removal and the final payment or defeasance of the Bonds.

Protection of the Trustee. The Trustee shall be protected and indemnified as stated in the Indenture by the Issuer and shall incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, notice, request, requisition, resolution, statement, telegram, electronic mail, facsimile, voucher, waiver or other paper or document which it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of the Indenture, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee may consult with counsel, who may be counsel to the District, before being required to take any action under the Indenture with regard to legal questions arising thereunder, and the opinion of such counsel shall be full and complete authorization and protection in respect to any action taken or suffered by it thereunder in good faith in accordance therewith.

The Trustee shall not be responsible for the sufficiency of the Installment Purchase Agreement or of the assignment made to it in the Indenture of all rights to receive the Revenues under the Installment Purchase Agreement, or of the title or value of the Project, and shall not be deemed to have knowledge of any Event of Default unless and until it shall have actual knowledge thereof or have received written notice thereof at its corporate trust office in Los Angeles, California. All recitals, warranties or representations contained therein are statements of the District, and the Trustee assumes no responsibility for their correctness, and the Trustee shall not be accountable for the use or application by the District, or any other party, of any funds which the Trustee properly releases to the District or which the District may otherwise receive from time to time. The Trustee makes no representation concerning, and has no responsibility for, the validity, genuineness, sufficiency, or performance by parties other than the Trustee of the Indenture, any Bond, or of any other paper or document, or for taking any action on them (except as specifically and expressly stated for the Trustee in the Indenture), or with respect to any obligation of the Issuer or the District under the Indenture or for the sufficiency of any insurance on the Water System.

Whenever in the observance or performance of its rights and obligations under the Indenture or under the Bonds, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, the Trustee may request a Certificate of the District and such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the District, and such certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions thereof upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owner may be entitled to take with like effect as it were not a party to the Indenture. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Issuer or the District, and may act as agent, depositary or trustee for any committee or body of Owners or of owners of obligations of the Issuer or the District as freely as if it were not the Trustee under the Indenture. The Trustee shall not be answerable for the exercise of any of its rights under the Indenture or for the performance of any of its obligations thereunder or for anything whatsoever in connection with the funds established thereunder, except only for its own willful misconduct or negligence.

No provision of the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties under the Indenture, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that the repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture. 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 the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

The Trustee shall not be responsible for monitoring the compliance of the District and the Issuer with the covenants as set forth in the Indenture and the Installment Purchase Agreement and may conclusively rely on all written instructions and calculations of the District and the Issuer with respect thereto; provided, the Trustee shall promptly comply with all such written instructions as provided in the Indenture.

The Issuer shall not be deemed to be an agent of the Trustee and the Trustee shall not be liable for the acts or omissions of the Issuer in connection with the transactions contemplated by the Indenture and by the Installment Purchase Agreement.

The Trustee shall have no responsibility 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.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed therein) may be deemed to be conclusively proved and established by a Certificate of the District, and such Certificate shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

The Trustee agrees to accept and act upon instructions or directions pursuant to the Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Trustee 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 Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee'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 Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

The Trustee shall not be liable to the parties to the Indenture or deemed in breach or default thereunder if and to the extent its performance thereunder is prevented by reason of force majeure. The term “force majeure” means an occurrence that is beyond the control of the Trustee and could not have been avoided by exercising due care. Force majeure shall include, but not be limited to, acts of God, terrorism, war, riots, strikes, fire, floods, earthquakes, epidemics or other similar occurrences.

The permissive right of the Trustee to do things enumerated in the Indenture shall not be construed as a duty and it shall not be answerable for other than its negligence or willful misconduct.

The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request, order or direction of any of the Owners pursuant to the provisions of the Indenture unless such Owners shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, shall be the successor to the Trustee without the execution or filing of any paper or further act, anything in the Indenture to the contrary notwithstanding.

Notice to Insurer by Trustee. The Trustee shall notify the Insurer of any failure of the District to provide notices, certificates and other information under the transaction documents of which the Trustee has actual or deemed knowledge.

AMENDMENT OF OR SUPPLEMENT TO THE INDENTURE

Amendment or Supplement by Consent of Owners. The Indenture and the rights and obligations of the Issuer, the District, Owners and the Trustee thereunder may be amended or supplemented at any time by an amendment thereof or supplement thereto which will become binding when the written consents of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture, are filed with the Trustee. So long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy, the consent of the Insurer will be required for any amendment or supplement. No such amendment or supplement will: (1) reduce the rate of interest on any Bond or extend the time of payment thereof or reduce the amount of principal or redemption premium, if any, of any Bond or extend the maturity thereof or otherwise alter or impair the obligation of the Issuer to pay the interest and principal and redemption premium, if any, thereon at the time and place and at the rate and in the currency and from the funds provided therein without the prior written consent of the Owner of the Bond so affected; or (2) modify any of the rights or obligations of the Trustee without its prior written consent thereto.

The Indenture and the rights and obligations of the Issuer, the District, the Owners and the Trustee thereunder may also be amended or supplemented at any time by an amendment thereof or supplement thereto which shall become binding upon execution without the written consents of any Owners, but with the written consent of the Insurer so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy, and only to the extent permitted by law and after receipt of an approving Opinion of Special Counsel and only if, in the opinion of the Trustee (which opinion may be based upon an Opinion of Special Counsel or a Certificate of the District), such amendment or supplement is not materially adverse to the interests of the Owners, including, but not limited to, amendments or supplements:

1. to add to the agreements, conditions, covenants and terms contained in the Indenture required to be observed or performed by the Issuer or the District other agreements, conditions, covenants and

terms thereafter to be observed or performed by the Issuer or the District, or to surrender any right reserved therein to or conferred therein on the Issuer or the District, and which in either case shall not adversely affect the interests of the Owners;

2. to modify, amend or supplement the Indenture in such manner as to preserve the exemption of the Bonds from the registration requirements of the Securities Act of 1933 or any similar federal statute later in effect or to permit the qualification of the Indenture under the Trust Indenture Act of 1939 or any similar federal statute later in effect;

3. to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Indenture or in regard to questions arising thereunder which the Issuer or the District may deem desirable or necessary, and which shall not adversely affect the interests of the Owners; and

4. to make any modifications or changes necessary or appropriate in the Opinion of Special Counsel to preserve or protect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

The Issuer shall give written notice of any amendment to the Indenture and the rights and obligations of the Issuer and the District and the Owners and the Trustee under the Indenture to Moody's and S&P not less than fifteen (15) days prior to the execution thereof.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by the Indenture or the modification thereby of the trusts created by the Indenture, the Trustee will be entitled to receive, and will be fully protected in relying upon, an opinion of counsel stating that the execution of such supplemental indenture is authorized or permitted by the Indenture and complies with the terms thereof. The Trustee may, but will not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

Disqualified Bonds. Bonds known to the Trustee to be held for the account of the Issuer or the District (but excluding Bonds held in any pension or retirement fund of the Issuer or the District) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in the Indenture, and shall not be entitled to consent to or take any other action provided therein, and the Trustee may adopt appropriate regulations to require each Owner, before his or her consent provided for therein shall be deemed effective, to reveal if the Bonds as to which such consent is given are disqualified as provided in the Indenture. Upon request of the Trustee, the District and the Issuer shall specify in a Certificate of the District and the Issuer those Bonds disqualified pursuant to the Indenture and the Trustee may conclusively rely on such Certificate.

Endorsement or Replacement of Bonds After Amendment or Supplement. After the effective date of any action taken as provided in the Indenture, the Trustee may determine that the Bonds may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case, upon demand of the Owner of any Outstanding Bond and presentation of the Bond for such purpose at the corporate trust office of the Trustee in Los Angeles, California, a suitable notation as to such action shall be made on such Bond. If the Trustee shall so determine, new Bonds so modified as in the opinion of the Trustee shall be necessary to conform to such action shall be prepared, and in that case upon demand of the Owner of any Outstanding Bonds such new Bonds shall be exchanged without cost to each Owner for Bonds then Outstanding at the corporate trust office of the Trustee in Los Angeles, California, upon surrender of such Outstanding Bonds. All Bonds surrendered to the Trustee pursuant to the provisions of the Indenture shall be canceled by the Trustee and shall not be redelivered.

Amendment or Supplement by Mutual Consent. The provisions of the Indenture shall not prevent any Owner from accepting any amendment or supplement as to the particular Bonds owned by him or her; provided, that due notation thereof is made on such Bonds.

Effect of Insurance Policy. In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under the Indenture would adversely affect the security for the Bonds or the rights of the Owners, the Trustee shall consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Insurance Policy.

DEFEASANCE

Discharge of Bonds and Indenture.

1. If the Trustee shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Bonds the interest and principal and redemption premiums, if any, evidenced and represented thereby at the times and in the manner provided in the Indenture, then all agreements and covenants of the Issuer and the District to such Owners thereunder shall thereupon cease, terminate and become void and shall be completely discharged and satisfied.

2. Any Outstanding Bonds shall on their maturities or their mandatory redemption dates prior thereto be deemed to have been paid within the meaning of and with the effect expressed in the Indenture if there shall be on deposit with the Trustee money held in trust for the benefit of the Owners of such Bonds which is sufficient to pay the interest and principal and redemption premiums, if any, on such Bonds payable on and prior to their maturities or their mandatory redemption dates thereto.

3. Any Outstanding Bonds shall prior to their maturities or their mandatory redemption dates prior thereto be deemed to have been paid within the meaning of and with the effect expressed in the Indenture if: (1) in case any of such Bonds are to be redeemed on any date prior to their maturities, the Issuer shall have given to the Trustee in form satisfactory to it irrevocable instructions to give notice by mail in accordance with the Indenture to the Owners of such Bonds of the redemption of such Bonds on such mandatory redemption dates; (2) there shall have been deposited with the Trustee Defeasance Securities, the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee at the same time, shall be sufficient (as evidenced by a report of an Independent Certified Public Accountant regarding such sufficiency) to pay when due the interest on such Bonds on and prior to the earlier of their maturities or their mandatory redemption dates, as the case may be, and the principal and redemption premiums, if any, on such Bonds; and (3) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Issuer shall have given the Trustee in form satisfactory to it irrevocable instructions to give notice by mail in accordance with the Indenture to the Owners of such Bonds that the deposit required by clause (2) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Indenture and stating their maturities or their mandatory redemption dates prior thereto upon which money is to be available for the payment of the interest and principal and redemption premiums, if any, on such Bonds.

4. The Trustee shall, if so directed by the Issuer pursuant to a Request of the Issuer: (i) prior to the maturity date of Bonds deemed to have been paid in accordance with the Indenture which are not to be redeemed prior to their maturity date; or (ii) prior to the mailing of the notice of redemption referred to in clause (c) above with respect to any Bonds deemed to have been paid in accordance with the Indenture which are to be redeemed on any date prior to their maturity, apply moneys deposited with the Trustee with respect to such Bonds and redeem or sell Defeasance Securities so deposited with the Trustee and apply the proceeds thereof to the purchase of such Bonds and the Trustee shall immediately thereafter cancel all such Bonds so purchased; provided, however, that the Defeasance Securities remaining on deposit with the Trustee after the purchase and cancellation of such Bonds shall be sufficient to pay when due the interest on those Bonds on and prior to their maturities or their mandatory redemption dates prior thereto, as the case may be, and the principal

and redemption premiums, if any, on such Bonds, with respect to which such Defeasance Securities are being held by the Trustee on or prior to the Redemption Date or maturity date thereof; as the case may be. If, at any time: (i) prior to the maturity date of Bonds deemed to have been paid in accordance with the Indenture which are not to be redeemed prior to their maturity date; or (ii) prior to the mailing of the notice of redemption referred to in clause (c) with respect to any Bonds deemed to have been paid in accordance with the Indenture which are to be redeemed on any date prior to their maturity, the Issuer shall purchase or otherwise acquire any such Bonds and deliver such Bonds to the Trustee prior to their maturity date or Redemption Date, as the case may be, the Trustee shall immediately cancel all such Bonds so delivered; such delivery of Bonds to the Trustee shall be accompanied by directions from the Issuer to the Trustee in the form of a Request of the Issuer as to the manner in which such Bonds are to be applied against the obligation of the Trustee to pay or redeem Bonds deemed paid in accordance with the Indenture. The directions given by the Issuer to the Trustee referred to in the preceding sentences shall also specify the portion, if any, of such Bonds so purchased or delivered and canceled to be applied against the obligation of the Trustee to pay Bonds deemed paid in accordance with the Indenture upon their maturity date or dates and the portion, if any, of such Bonds so purchased or delivered and canceled to be applied against the obligation of the Trustee to redeem Bonds deemed paid in accordance with the Indenture on any date or dates prior to their maturity.

In the event that on any date as a result of any purchases, acquisitions and cancellations of Bonds as provided in the Indenture the total amount of Defeasance Securities remaining on deposit with the Trustee under the Indenture is in excess of the total amount which would have been required to be deposited with the Trustee on such date with respect to the remaining Bonds in order to satisfy the Indenture, the Trustee shall, if requested by the District pursuant to a request of the District, pay the amount of such excess to the District free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under the Indenture; provided, however, before any such excess is transferred to the District, the District and the Trustee shall have received a report of an Independent Certified Public Accountant to the effect that the amount of moneys and the principal of and interest when due on the Defeasance Securities remaining on deposit with the Trustee after such amount is transferred to the District shall be sufficient to pay when due the interest on such Bonds on and prior to their maturities or their mandatory redemption dates prior thereto, as the case may be, and the principal and redemption premiums, if any, of such Bonds.

Except as otherwise provided in the Indenture, neither Defeasance Securities deposited with the Trustee pursuant to the Indenture nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or redemption price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to the District as received by the Trustee, free and clear of any trust, lien or pledge securing said Bonds or otherwise existing under the Indenture, and (B) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the interest on the Bonds on and prior to their maturities or their mandatory redemption dates prior thereto, as the case may be, and the principal and redemption premiums, if any, on the Bonds and interest earned from such reinvestment shall be paid over to the District, as received by the Trustee, free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under the Indenture.

5. After the payment of all interest and principal and redemption premiums, if any, of all Outstanding Bonds as provided in the Indenture, and the payment of all fees and expenses of the Trustee, upon receipt of a Request of the District, the Trustee shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the Issuer and the District and shall authenticate and deliver to the Issuer and the District all such instruments as may be necessary or desirable to evidence such total discharge and satisfaction of the Indenture, and the Trustee shall pay over or deliver to the District all money or investments held by it pursuant to the Indenture which are not required for the payment of the interest and principal and redemption premiums, if any, evidenced and represented by such Bonds, which money and investments shall be used by the District for any lawful purpose.

The Indenture shall not be discharged until all Policy Costs and other amounts owing to the Insurer with respect to the Insurance Policy shall have been paid in full. The Issuer's obligation to pay such amounts shall expressly survive payment in full of the payments of principal of and interest on the Bonds.

Unclaimed Money. Anything contained in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or principal or redemption premium, if any, on any Bonds which remains unclaimed for two (2) years after the date when the payments on such Bonds have become payable, if such money was held by the Trustee on such date, or for two (2) years after the date of deposit of such money if deposited with the Trustee after the date when the interest and principal and redemption premiums, if any, on such Bonds have become payable, shall be repaid by the Trustee to the Issuer 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 Issuer for the payment of the interest and principal and redemption premiums, if any, on such Bonds; provided, that before being required to make any such payment to the Issuer, the Trustee shall, at the expense of the Issuer, give notice by mail in accordance with the Indenture to Owners of Bonds with respect to which moneys remain unclaimed that such money remains unclaimed and that after a date named in such notice, which date shall not be less than sixty (60) days after the date of giving such notice, the balance of such money then unclaimed will be returned to the Issuer.

MISCELLANEOUS

Benefits of the Indenture Limited to Parties. Nothing contained in the Indenture, expressed or implied, is intended to confer upon, or to give or grant to, any person or entity other than the Issuer, the District, the Trustee and the Owners any claim, remedy or right under or pursuant thereto, and any agreement, condition, covenant or term contained therein required to be observed or performed by or on behalf of the Issuer or the District shall be for the sole, exclusive benefit of the Trustee and the Owners.

Successor Deemed Included in All References to Predecessor. Whenever either the Issuer, the District or the Trustee or any officer, director or employee thereof is named or referred to in the Indenture, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Issuer, the District or the Trustee or such officer, director or employee, and all agreements, conditions, covenants and terms contained therein required to be observed or performed by or on behalf of the Issuer, the District or the Trustee or any officer, director or employee thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Indenture to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or such Owner's attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he or she purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him or her the execution thereof; or by an affidavit of a witness to such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

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

Waiver of Personal Liability. No officer, director or employee of the District, the Issuer or the Trustee shall be individually or personally liable for the payment of the interest or principal or redemption premiums, if any, on the Bonds, but nothing contained in the Indenture shall relieve any officer, director or employee of the Issuer, the District or the Trustee from the performance of any official duty provided by any applicable provisions of law or by the Installment Purchase Agreement or by the Indenture.

Content of Certificates. Every certificate with respect to compliance with any agreement, condition, covenant or term contained in the Indenture shall include: (a) a statement that the person or persons executing such certificate have read such agreement, condition, covenant or term and the definitions therein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements contained in such certificate are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such agreement, condition, covenant or term has been complied with; and (d) a statement as to whether, in the opinion of the signers, such agreement, condition, covenant or term has been complied with.

Any certificate may be based, insofar as it relates to legal matters, upon an Opinion of Special Counsel unless the person or persons executing such certificate know that the Opinion of Special Counsel with respect to the matters upon which his, her or their certificate may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous. Any Opinion of Special Counsel may be based, insofar as it relates to factual matters or information with respect to which is in the possession of the District, upon a representation by an officer or officers of the District unless the counsel executing such Opinion of Special Counsel knows that the representation with respect to the matters upon which his or her opinion may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous.

Notice by Mail. Any notice required to be given under the Indenture by mail to any Owners of Bonds shall be given by mailing a copy of such notice, first class postage redeemed, to the Owners of such Bonds at their addresses appearing in the books required to be kept by the Trustee pursuant to the provisions of the Indenture not less than fifteen (15) days nor more than thirty (30) days following the action or prior to the event concerning which notice thereof is required to be given; provided, that receipt of any such notice shall not be a condition precedent to the effect of such notice and neither failure to receive any such notice nor any immaterial defect contained therein shall affect the validity of the proceedings taken in connection with the action or the event concerning which such notice was given.

Funds. Any fund required to be established and maintained in the Indenture by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purpose of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such funds shall at all times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Bonds and the rights of the Owners. In addition to the funds and accounts required to be established under the Indenture, the Trustee may establish such other funds and accounts as it deems necessary or appropriate to perform its obligations.

Deposits and Investments.

1. Any money held by the Trustee in any of the funds provided in the Indenture shall be invested in one or more Permitted Investments in accordance with a Written Request of the Issuer or the District. In the absence of a Written Request of the Issuer or the District funds shall be held uninvested. Any such money shall be invested by the Trustee as directed by the Issuer or the District pursuant to a Written Request of the Issuer or the District in Permitted Investments which will, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement hereunder.

2. The Trustee may act as principal or agent in the acquisition or disposition of any such deposit or investment and may, for the purpose of any such deposit or investment, commingle any of the money held by them under the Indenture, and the Trustee shall not be liable or responsible for any loss suffered in connection with any such deposit or investment made by them under the terms of and in accordance with the Indenture. The Trustee may present for redemption or sell any such deposit or investment whenever it shall be necessary in order to provide money to meet any payment of the money so deposited or invested, and

the Trustee shall not be liable or responsible for any losses resulting from any such deposit or investment presented for redemption or sold. Any Permitted Investments that are registrable securities shall be registered in the name of the Trustee. The Trustee is authorized, in making or disposing of any investment permitted by the Indenture, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or dealing as principal for its own account.

The Issuer (and the District by its execution of the Installment Purchase Agreement) acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Issuer the right to receive brokerage confirmations of security transactions as they occur, the Issuer specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish periodic cash transaction statements to the Issuer which include detail for all investment transactions made by the Trustee under the Indenture.

3. Subject to the Indenture, any interest or profits on such deposits and investments received by the Trustee shall be retained in the fund or account to which they relate and on or before April 1 and October 1 of each year shall be transferred first, if the Issuer so directs, to the Rebate Fund, and second, shall be transferred to the Interest Account of the Bond Payment Fund.

4. Trustee shall deposit earnings on investments in the Bond Payment Fund to the Interest Account, Principal Account or Redemption Account of the Bond Payment Fund, to the extent money is needed therein to make the interest or principal payment or redemption premiums, if any, as the case may be, on such Interest Payment Date, maturity date, or Redemption Date.

Insurer as Third Party Beneficiary. The Insurer is intended as a third party beneficiary to this Indenture.

Impairment of Insurer's Rights. No contract shall be entered into or any action taken by which the rights of the Insurer or security for or sources of payment of the Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Insurer.

Insurer Consideration. The rights granted to the Insurer under this Indenture or any supplement thereto or amendment thereof to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Owners and such action does not evidence any position of the Insurer, affirmative or negative, as to whether the consent of the Owners or any other person is required in addition to the consent of the Insurer.

Amounts Paid by Insurer. Amounts paid by the Insurer under the Insurance Policy shall not be deemed paid for purposes of this Indenture and the Bonds relating to such payments shall remain Outstanding and continue to be due and owing until paid by the District in accordance with this Indenture. This Indenture shall not be discharged unless amounts due or to become due to the Insurer have been paid in full or duly provided for.

Covenant to Preserve Priority. Each of the District and Trustee covenant and agree to take such action (including, as applicable, filing of Uniform Commercial Code financing statements and continuations thereof) as is necessary from time to time to preserve the priority of the pledge of the Revenues set forth in Section 5.01 under applicable law.

Subrogation and Survival of Obligations. The Insurer shall, to the extent it makes any payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy. Each obligation of the District to the Insurer under this

Indenture or any supplement thereto or amendment thereof shall survive discharge or termination of this Indenture or any supplement thereto or amendment thereof.

Reimbursement of Fees. The Issuer shall pay or reimburse the Insurer any and all charges, fees, costs and expenses that the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Indenture or any supplement thereto or amendment thereof; (ii) the pursuit of any remedies under the Indenture or any supplement thereto or amendment thereof or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, this Indenture or any supplement thereto or amendment thereof whether or not executed or completed, or (iv) any litigation or other dispute in connection with this Indenture or any supplement thereto or amendment thereof or the transactions contemplated thereby, other than costs resulting from the failure of the Insurer to honor its obligations under the Insurance Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of this Indenture or any supplement thereto or amendment thereof.

Provision of Information. So long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy, the Insurer shall be provided with the following information by the Issuer or Trustee, as the case may be:

1. Notice of any draw upon the Reserve Fund within two Business Days after knowledge thereof other than (i) withdrawals of amounts in excess of the Reserve Requirement and (ii) withdrawals in connection with a refunding of the Bonds;
2. Notice of any default known to the Trustee or the Issuer within five Business Days after knowledge thereof;
3. Prior notice of the advance refunding or redemption of any of the Bonds, including the principal amount, maturities and CUSIP numbers thereof;
4. Notice of the resignation or removal of the Trustee and the appointment of, and acceptance of duties by, any successor thereto;
5. Notice of the commencement of any proceeding by or against the Issuer commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");
6. Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the Bonds;
7. A full original transcript of all proceedings relating to the execution of any amendment, supplement, or waiver to this Indenture or any supplement thereto or amendment thereof; and
8. All reports, notices and correspondence to be delivered to Owners under the terms of this Indenture and any supplement thereto or amendment thereof.

Additional Information. The Insurer shall have the right to receive such additional information as it may reasonably request.

Discussion of and Access to Information. The Issuer will permit the Insurer to discuss the affairs, finances and accounts of the Issuer or any information the Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the Issuer and will use commercially reasonable efforts to enable the Insurer to have access to the facilities, books and records of the Issuer on any business day upon reasonable prior notice.

APPENDIX C

FORM OF BOND COUNSEL OPINION

Upon issuance of the 2018A Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

[Closing Date]

Palmdale Water District Public Financing Authority
Palmdale, CA 93550

Re: \$_____ Palmdale Water District Public Financing Authority
Water Revenue Bonds, Series 2018A

Members of the Board of Directors:

We have acted as Bond Counsel to the Palmdale Water District Public Financing Authority (the “Authority”) in connection with the issuance of \$_____ aggregate principal amount of the Palmdale Water District Public Financing Authority Water Revenue Bonds, Series 2018A (the “Bonds”). The Bonds have been issued by the Authority pursuant to the terms of the Indenture of Trust, dated as of June 1, 2018 (the “Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”).

The Bonds are limited obligations of the Authority payable solely from Revenues (as such term is defined in the Indenture), consisting of payments (the “Series 2018A Installment Payments”) to be made by the Palmdale Water District (the “District”) to the Authority pursuant to an Installment Purchase Agreement, dated as of June 1, 2018 (the “Installment Purchase Agreement”), by and between the District and the Authority, and certain other amounts held under the Indenture.

In connection with our representation we have examined a certified copy of the proceedings relating to the Bonds. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth in the Indenture, we are of the opinion that:

1. The proceedings of the Authority show lawful authority for the issuance and sale by the Authority of the Bonds under the laws of the State of California now in force, and the Indenture has been duly authorized, executed and delivered by the Authority, and, assuming due authorization, execution and delivery of the Indenture by the Trustee, the Bonds and the Indenture are valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms.

2. The obligation of the Authority to make the payments of principal and interest on the Bonds from Revenues (as such term is defined in the Indenture) is an enforceable obligation of the Authority and does not constitute an indebtedness of the Authority in contravention of any constitutional or statutory debt limit or restriction.

3. The obligation of the District to make the Series 2018A Installment Payments from Net Water Revenues (as defined in the Installment Purchase Agreement) is an enforceable obligation of the District and does not constitute a debt of the District, or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation.

4. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in the Indenture, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

5. Interest on the Bonds is exempt from State of California personal income tax.

6. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same series and maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond Owner will increase the Bond Owner's basis in the applicable Bond. Original issue discount that accrues for the Bond Owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals (as described in paragraph (4) above) and is exempt from State of California personal income tax.

7. The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable Bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The opinions expressed in paragraphs (4) and (6) above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds are based upon certain representations of fact and certifications made by the Authority, the District and others and are subject to the condition that the Authority and the District comply with all requirements of the Code that must be satisfied subsequent to issuance of the Bonds to assure that interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Authority and the District have covenanted to comply with all such requirements.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to the Bonds if any such action is taken or omitted based upon the opinion or advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Bonds.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Bonds or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

APPENDIX D

DTC AND BOOK-ENTRY ONLY SYSTEM

The information in this Appendix concerning DTC and DTC's book-entry only system has been obtained from sources that the District and the Underwriter believe to be reliable, but neither of the District nor the Underwriter takes any responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2018A Bonds, payment of principal, premium, if any, accreted value and interest with respect to the 2018A Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2018A Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2018A Bonds. The 2018A Bonds 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 bond will be issued for each annual maturity of the 2018A Bonds, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has 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.

Purchases of 2018A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2018A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2018A Bond ("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 2018A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2018A Bonds, except in the event that use of the book-entry system for the 2018A Bonds is discontinued.

To facilitate subsequent transfers, all 2018A Bonds 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 2018A Bonds 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 2018A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2018A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2018A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2018A Bonds, such as prepayments, tenders, defaults, and proposed amendments to the 2018A Bonds documents. For example, Beneficial Owners of 2018A Bonds may wish to ascertain that the nominee holding the 2018A Bonds 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.

Prepayment notices shall be sent to DTC. If less than all of the 2018A Bonds within a maturity are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be prepaid.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2018A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2018A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Prepayment proceeds, distributions, and dividend payments on the 2018A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of prepayment proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A 2018A Bond Owner shall give notice to elect to have its 2018A Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Certificates by causing the Direct Participant to transfer the Participant's interest in the 2018A Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of 2018A Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2018A Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2018A Bonds to the Trustee's DTC account. DTC may discontinue providing its services as depository with respect to the 2018A Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

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

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE 2018A BONDS, WILL SEND ANY NOTICE OF PREPAYMENT OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE PREPAYMENT OF THE 2018A BONDS CALLED FOR PREPAYMENT OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Upon issuance of the 2018A Bonds, the District proposes to enter into a Continuing Disclosure Certificate in substantially the following form:

[TO COME FROM BOND COUNSEL]

APPENDIX F

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

APPENDIX G

SUPPLEMENTAL INFORMATION CONCERNING THE CITY OF PALMDALE

The information and expressions of opinion set forth in this Appendix G have been obtained from sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness. Statements contained herein which involve estimates, forecasts, or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale thereafter of the securities offered hereby shall under any circumstances create any implication that there has been no change in the affairs of the District or the Authority or in any other information contained herein since the date of the Official Statement.

THE FOLLOWING INFORMATION AND EXPRESSIONS OF OPINION HAVE BEEN PROVIDED AS GENERAL BACKGROUND INFORMATION ONLY. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE COUNTY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2018A BONDS.

Employment and Industry

The following table summarizes the civilian labor force, civilian employment and civilian unemployment figures over the period from 2013 through 2017 in the City, the County, the State of California and the United States.

TABLE NO. G-1
City of Palmdale, County of Los Angeles, State of California and United States
Labor Force, Employment and Unemployment
Yearly Average

<i>Year and Area</i>	<i>Civilian Labor Force</i>	<i>Civilian Employment⁽¹⁾</i>	<i>Civilian Unemployment⁽²⁾</i>	<i>Civilian Unemployment Rate⁽³⁾</i>
2013				
Palmdale	64,100	55,800	8,300	12.9%
Los Angeles County	4,967,000	4,482,100	485,000	9.8
California	18,625,000	16,958,400	1,666,600	8.9
United States	155,389,000	143,929,000	11,460,000	7.4
2014				
Palmdale	64,300	57,200	7,100	11.0%
Los Angeles County	5,006,800	4,593,900	412,900	8.2
California	18,758,400	17,351,300	1,407,100	7.5
United States	155,922,000	146,305,000	9,617,000	6.2
2015				
Palmdale	63,900	58,200	5,700	8.9%
Los Angeles County	5,000,600	4,668,200	332,400	6.6
California	18,896,500	17,724,800	1,171,700	6.2
United States	157,130,000	148,834,000	8,296,000	5.3
2016				
Palmdale	64,100	59,500	4,500	7.1%
Los Angeles County	5,043,300	4,778,800	264,500	5.2
California	19,093,700	18,048,800	1,044,800	5.5
United States	159,187,000	151,436,000	7,751,000	4.9
2017				
Palmdale	63,800	59,800	4,000	6.2%
Los Angeles County	5,123,900	4,883,600	240,300	4.7
California	19,312,000	18,393,100	918,900	4.8
United States ⁽⁴⁾	160,320,000	153,337,000	6,982,000	4.4

Note: Data is not seasonally adjusted.

(1) Includes persons involved in labor-management trade disputes.

(2) Includes all persons without jobs who are actively seeking work.

(3) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

(4) Not strictly comparable with data for prior years.

Source: California Employment Development Department and U.S. Department of Labor, Bureau of Labor Statistics.

The following table sets forth the industry employment and the labor force estimates for the years 2013 through 2017 for the Los Angeles Long Beach Glendale MD. Annual industry employment information is not compiled by sector for the City.

TABLE G-2
LOS ANGELES-LONG BEACH-GLENDALE MD
INDUSTRY EMPLOYMENT & LABOR FORCE - BY ANNUAL AVERAGE
2013 through 2017

	2013	2014	2015	2016	2017
Civilian Labor Force	4,967,800	5,004,200	5,002,600	5,055,000	5,123,000
Civilian Employment	4,483,300	4,591,100	4,671,600	4,789,300	4,882,100
Civilian Unemployment	484,400	413,100	331,000	265,600	240,900
Civilian Unemployment Rate	9.8%	8.3%	6.6%	5.3%	4.7%
 Total Farm	5,500	5,200	5,000	5,300	5,800
Total Nonfarm	4,108,100	4,184,600	4,277,300	4,385,500	4,435,700
Total Private	3,556,900	3,628,500	3,708,800	3,808,800	3,850,200
Goods Producing	493,500	492,700	496,800	496,700	490,100
Mining and Logging	3,400	3,100	2,900	2,500	2,200
Construction	114,600	118,500	126,200	133,900	137,700
Manufacturing	375,600	371,100	367,800	360,300	350,100
Service Providing	3,614,600	3,692,000	3,780,500	3,888,800	3,945,600
Trade, Transportation & Utilities	781,900	798,900	816,500	829,000	838,900
Wholesale Trade	218,700	222,500	225,600	225,200	224,500
Retail Trade	405,800	413,100	419,300	421,500	422,500
Transportation, Warehousing & Utilities	157,500	163,400	171,500	182,300	191,800
Information	197,000	198,800	207,500	229,200	214,500
Financial Activities	213,000	211,200	215,500	219,800	221,100
Professional & Business Services	584,800	591,700	593,800	603,200	613,400
Educational & Health Services	702,100	720,700	741,100	767,600	794,300
Leisure and Hospitality	438,900	464,100	486,600	510,000	523,900
Other Services	145,700	150,500	151,000	153,300	154,100
Government	<u>551,200</u>	<u>556,200</u>	<u>568,500</u>	<u>576,700</u>	<u>585,500</u>
Total, All Industries	<u>4,113,600</u>	<u>4,189,800</u>	<u>4,282,300</u>	<u>4,390,800</u>	<u>4,441,400</u>

Note: Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households and persons involved in labor-management trade disputes. Employment reported by place of work. Items may not add to total due to independent rounding. The "Total, All Industries" data is not directly comparable to the employment data found in this Appendix G.

Source: State of California, Employment Development Department, Los Angeles-Long Beach-Glendale MD Industry Employment & Labor Force - by Annual Average, March 2017 Benchmark.

The principal employers operating within the City and their respective number of employees as of Fiscal Year 2016-2017 are as follows:

**TABLE G-3
PRINCIPAL EMPLOYERS
CITY OF PALMDALE
FISCAL YEAR 2016-17**

<i>Employer</i>	<i>Number of Employees</i>	<i>Percentage of Total Employment</i>
Edwards Air Force Base	11,457	2.11%
China Lake NWC	6,520	1.20
Northrop Grumman	4,200	0.77
County of Los Angeles	4,136	0.76
Lockheed Martin	3,700	0.68
Antelope Valley Hospital Medical Center	2,500	0.46
Antelope Valley Union High School District	2,500	0.46
Lancaster School District	2,200	0.41
Wal-Mart (5) Stores	1,922	0.35
Antelope Valley Mall (All Stores)	<u>1,800</u>	<u>0.33</u>
Total Top Employers	40,935	7.53%

Source: City of Palmdale, Comprehensive Annual Financial Report for the year ending June 30, 2017

Income

The following table summarizes per capita personal income for Los Angeles County, California and the United States for 2012 through 2016.

**TABLE NO. G-4
PER CAPITA PERSONAL INCOME
2012 through 2016**

<i>Year</i>	<i>Los Angeles County</i>	<i>State of California</i>	<i>United States</i>
2012	48,900	48,359	44,283
2013	48,283	48,555	44,489
2014	51,111	51,317	46,486
2015	54,298	54,664	48,429
2016	55,624	56,308	49,204

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Commercial Activity

The following table summarizes the volume of retail sales and taxable transactions for Palmdale for 2012 through 2016.

TABLE NO. G-5
CITY OF PALMDALE
TOTAL TAXABLE TRANSACTIONS
(in Thousands)
2012 – 2016

<u><i>Year</i></u>	<u><i>Retail Sales</i></u> <u><i>\$(000's)</i></u>	<u><i>Retail Sales</i></u> <u><i>Permits</i></u>	<u><i>Total</i></u> <u><i>Taxable</i></u> <u><i>Transactions</i></u> <u><i>\$(000's)</i></u>	<u><i>Issued Sales</i></u> <u><i>Permits</i></u>
2012	\$1,286,802	1,602	\$1,409,735	2,184
2013	1,312,551	1,605	1,435,609	2,168
2014	1,337,007	1,713	1,469,492	2,269
2015	1,409,813	1,839	1,559,109	2,659
2016	1,425,869	1,893	1,590,372	2,732

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

Building Activity

As a result of the relatively moderate cost of land in the Antelope Valley, single family detached housing is affordable when compared with most areas of the County. The availability of reasonably affordable housing in the Antelope Valley was an important factor in the District's population growth during the 1980s and early 1990s. Below are valuations of building permits in the City from 2012 through 2016.

TABLE NO. G-6
CITY OF PALMDALE
BUILDING ACTIVITY VALUATIONS
(Dollars expressed in Thousands)
2012 – 2016

	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>
<u>Residential</u>					
Single Family	\$ 26,974	\$ 4,593	\$ 7,899	\$ 21,357	\$ 37,122
Multi-Family	15,612	0	0	0	0
Alteration/Additions	<u>2,162</u>	<u>4,126</u>	<u>3,215</u>	<u>4,014</u>	<u>3,907</u>
Total ⁽³⁾	\$ 44,748	\$ 8,719	\$ 11,114	\$ 25,371	\$ 41,029
<u>Non-Residential</u>					
New Commercial	\$ 593	\$ 4,114	\$ 7,179	\$ 2,799	\$ 3,150
New Industry	620	0	0	30	0
Other ⁽¹⁾	5,509	4,142	3,989	4,590	3,333
Alteration/Additions	<u>7,791</u>	<u>10,216</u>	<u>19,125</u>	<u>15,388</u>	<u>8,525</u>
Total ⁽³⁾	\$ 14,513	\$ 18,472	\$ 30,293	\$ 22,807	\$ 15,008
<u>Total⁽³⁾</u>	<u>\$ 59,261</u>	<u>\$ 27,191</u>	<u>\$ 41,407</u>	<u>\$ 48,178</u>	<u>\$ 56,037</u>
Single Family Units ⁽²⁾	58	30	42	99	170
Multi-Family Units ⁽²⁾	<u>324</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	382	30	42	99	170

⁽¹⁾ Includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings and non-residential alterations and additions.

⁽²⁾ Number of units rather than dollars. Not in thousands.

⁽³⁾ Total may not add due to rounding.

Source: Construction Industry Research Board.

Real Estate

The following table shows the median sales prices of homes for the City in January in the years 2014 through 2018.

**TABLE NO. G-7
CITY OF PALMDALE
MEDIAN HOME SALES PRICES
2014 – 2018**

<i>January</i>	<i>Median Home Sales Prices</i>
2014	\$190,100
2015	222,700
2016	244,400
2017	265,500
2018	297,600

Source: Zillow Research

The following table shows the median home values for the City on January 1 of the years 2014 through 2018.

**TABLE NO. G-8
CITY OF PALMDALE
MEDIAN HOME VALUES
2014 – 2018**

<i>January 1,</i>	<i>Median Home Value</i>
2014	\$193,094
2015	221,321
2016	241,855
2017	265,889
2018	302,620

Source: Zillow Research

The following table shows the number of homes foreclosed on in the City from 2012 through 2016.

TABLE NO. G-9
CITY OF PALMDALE
FORECLOSURES
2012 – 2016

<i>Year</i>	<i>Foreclosures (per 10,000 Homes)</i>
2012	267.94
2013	108.75
2014	82.39
2015	61.22
2016	38.71

Source: Zillow Research

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”), dated _____, 2018, is executed and delivered by the Palmdale Water District (the “District”) in connection with the issuance of \$_____ of the District’s Water Revenue Bonds, Series 2018A (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust (the “Indenture”), dated as of June 1, 2018, by and among the District, The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”) and the Palmdale Water District Public Financing Authority. 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 Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

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

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

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income purposes.

“Disclosure Representative” shall mean either of the General Manager or the Financial Advisor to the Board of Directors of the District, or either of their designees, or such other officer or employee as the District shall designate in writing from time to time.

“Dissemination Agent” shall mean, initially, District, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designed in writing by the District and which has been filed with the then current Dissemination Agent a written acceptance of such designation.

“EMMA” shall mean the Electronic Municipal Market Access system of the MSRB.

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

“MSRB” shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule

“Official Statement” shall mean the Official Statement for the Bonds dated _____, 2018.

“Participating Underwriter” shall mean Piper Jaffray & Co. as the original underwriter of the Bonds.

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

SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent upon written direction to, not later than 270 days after the end of the District’s fiscal year, commencing with the report for the fiscal year ending December 31, 2018, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report shall be provided to the MSRB in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

The Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The District’s fiscal year is currently effective from January 1 to the immediately succeeding December 31 of the following year. The District will promptly notify the MSRB and the Dissemination Agent, if other than the District, of a change in the fiscal year dates. The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent, if other than the District, to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the District and shall have no duty or obligation to review such Annual Report.

(b) If the Dissemination Agent is other than the District, not later than fifteen (15) days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the District shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) days prior to such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB, in the form required by the MSRB.

(d) The Dissemination Agent shall:

(i) confirm the electronic filing requirements of the MSRB for the Annual Reports; and

(ii) promptly after receipt of the Annual Report, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided the MSRB. The Dissemination Agent’s duties under this clause (ii) shall exist only if the District provides the Annual Report to the Dissemination Agent for filing.

(e) Notwithstanding any other provision of this Disclosure Certificate, all filings shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

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

(a) The audited financial statements of the District for the most recent fiscal year of the District then ended. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the District in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements, if any, of the District shall be audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the District may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the District shall modify the basis upon which its financial statements are prepared, the District shall provide a notice of such modification to the MSRB, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding subsection (a) by the date required by Section 3 hereof, updates to the following information with respect to the Fiscal Year ending on the preceding December 31:

- (i) Tables 4, 5, 7, 8, 9, 12, 13, 15 through 20 and 23 of the Official Statement;
- (ii) the outstanding principal amount of the Bonds and additional Bonds or Contracts; and
- (iii) amount on deposit in the Reserve Fund established under the Indenture.

(c) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) business days after the event:

- (1) principal and interest payment delinquencies;
- (2) unscheduled draws on debt service reserves reflecting financial difficulties;

- (3) unscheduled draws on credit enhancements reflecting financial difficulties;
- (4) substitution of credit or liquidity providers, or their failure to perform;
- (5) adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determinations of taxability or of the Notice of Proposed Issue (IRS Form 5701-TEB);
- (6) tender offers;
- (7) defeasances;
- (8) ratings changes; and
- (9) bankruptcy, insolvency, receivership or similar proceedings.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental 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 obligated person.

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

- (1) unless described in paragraph 5(a)(5), notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
- (2) the consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the 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;
- (3) appointment of a successor or additional trustee or the change of the name of a trustee;
- (4) nonpayment related defaults;
- (5) modifications to the rights of Owners of the Bonds;
- (6) notices of redemption; and

(7) release, substitution or sale of property securing repayment of the Bonds.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event described in subsection (b), the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the District determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the District shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) business days after the event.

(e) The District hereby agrees that the undertaking set forth in this Disclosure Certificate is the responsibility of the District and that the Dissemination Agent shall not be responsible for determining whether the District's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

(f) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsection (b)(6) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Indenture. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (f) prior to the occurrence of such Listed Event.

(g) Any of the filings required to be made under this Section 5 shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 6. Termination of Reporting Obligation. The obligation of the District and the Dissemination Agent under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of 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.

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the District. The Dissemination Agent may resign by providing thirty days written notice to the District and the Paying Agent. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the District. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the District in a timely manner and in a form suitable for filing.

SECTION 8. Amendment.

(a) This Disclosure Certificate may be amended, in writing, without the consent of the Owners, if all of the following conditions are satisfied: (1) such amendment is made in connection

with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the District or the type of business conducted thereby, (2) this Disclosure Certificate as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) there shall have been delivered to the District an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the District, to the same effect as set forth in clause (2) above, (4) the District shall have delivered to the Dissemination Agent (if other than the District) an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the District, to the effect that the amendment does not materially impair the interests of the Owners, and (5) the District shall have delivered copies of such opinion and amendment to the MSRB.

(b) This Disclosure Certificate may be amended in writing with respect to the Bonds, upon obtaining consent of Owners at least 25% in aggregate principal of the Bonds then outstanding; provided that the conditions set forth in Section 8(a)(1), (2) and (3) have been satisfied; and provided, further, that the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder.

(c) To the extent any amendment to this Disclosure Certificate results in a change in the type of financial information or operating data provided pursuant to this Disclosure Certificate, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the basis on which financial statements are prepared, 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. Such comparison shall include a quantitative and, to the extent reasonably feasible, 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.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

The District acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the District, and that under some circumstances compliance with this Disclosure Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the District under such laws.

SECTION 10. Default. In the event the District fails to comply with any provision in this Disclosure Certificate, the Dissemination Agent may (or shall upon direction of the Owners of 25% in aggregate principal of the Bonds then outstanding or the Underwriter) take all action necessary to cause the District to comply with this Disclosure Certificate. In the event of a failure of the Dissemination Agent to comply with any provision of this Disclosure Certificate, any 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 11. Duties, Immunities and Liabilities of Dissemination Agent. (a) In the event that the Dissemination Agent is other than the District, than the provisions of this Section 11(a) shall apply. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The 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 all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the District, the Bond Owner's, 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. No person shall have any right to commence any action against the Dissemination Agent hereunder, seeking any remedy other than to compel specific performance of this Disclosure Certificate.

(b) The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Certificate.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter, the Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

SECTION 13. Notices. Notices should be sent in writing to the following address. The following information may be conclusively relied upon until changed in writing.

Disclosure Representative: General Manager
Palmdale Water District
2029 E. Avenue Q
Palmdale, California 93550

PALMDALE WATER DISTRICT

By: _____
General Manager

P A L M D A L E W A T E R D I S T R I C T
B O A R D M E M O R A N D U M

DATE: May 22, 2018 **May 29, 2018**
TO: BOARD OF DIRECTORS **Board Meeting**
FROM: Mr. Dennis D. LaMoreaux, General Manager
RE: ***AGENDA ITEM NO. 7.3 – CONSIDERATION AND POSSIBLE ACTION ON BUDGET ADJUSTMENTS FOR 100-YEAR ANNIVERSARY CELEBRATION. (\$40,000.00 – NON-BUDGETED – GENERAL MANAGER LaMOREAUX/AD HOC 100th ANNIVERSARY COMMITTEE)***

Recommendation:

Staff and the Ad Hoc 100th Anniversary Committee recommend that the Board authorize an increase of \$40,000.00 to the budget for Palmdale Water District's 100th year anniversary celebration events.

Alternative Options:

There are no alternatives. Budget amounts authorized in July 2017 were estimates and unforeseen circumstances have led to an increase being needed for the budget.

Background:

On July 12, 2017, the Board of Directors authorized a budget of \$100,000.00 for the following activities associated with the District's 100th anniversary:

- Redesign Logo
- Create commemorative flag
- Create commemorative book
- Historic Displays
- Videos
- Time Capsule
- Proclamation/Congratulations
- 100-Year Celebration Open House

Unforeseen circumstances related to the implementation of the new logo, writing/design for the commemorative book, and costs associated with tours and the open house have led to the need for an increase of \$40,000.00 to this budget.

Strategic Plan Initiative/Mission Statement:

This item is under Strategic Initiative No. 5 – Regional Leadership.
This item directly relates to the District's Mission Statement.

Budget:

100-year anniversary events are not budgeted; however, funds can be transferred from other budget items.

Supporting Documents:

- List of 100-year anniversary costs

Project Number	Vendor ID	Document Number	Date	Item Number	Total Cost	
Branding						
17-406	AVG002	RC18-0533	05/01/2018	100TH YEAR ANNIVERSARY	2,800.00	Truck Decals
17-406	BAC003	RC18-0050	01/11/2018	100TH YEAR ANNIVERSARY	1,500.00	Logo on voting system
17-406	FOU001	RC17-1477	11/16/2017	100TH ANNIVERSARY	338.63	Business Cards
17-406	FOU001	RC17-1570	11/20/2017	100TH ANNIVERSARY	476.10	Business Cards
17-406	FOU001	RC17-1536	12/04/2017	100TH ANNIVERSARY	453.33	Letterhead
17-406	FOU001	RC18-0024	01/02/2018	100TH YEAR ANNIVERSARY	2,498.10	Business Cards
17-406	FOU001	RC18-0072	01/15/2018	100TH YEAR ANNIVERSARY	56.78	Business Cards
17-406	FOU001	RC18-0073	01/23/2018	100TH YEAR ANNIVERSARY	107.60	Banner
17-406	FOU001	RC18-0098	01/25/2018	100TH YEAR ANNIVERSARY	56.78	Business Cards
17-406	FOU001	RC18-0353	03/14/2018	100TH YEAR ANNIVERSARY	185.82	Flag
17-406	KIN001	RC17-0969	08/03/2017	100TH ANNIVERSARY	6,250.00	Logo
17-406	KIN001	RC17-1353	10/26/2017	100TH ANNIVERSARY	7,750.00	Logo
17-406	KIN001	RC18-0165	02/06/2018	100TH YEAR ANNIVERSARY	3,500.00	Logo
17-406	MIS001	RC18-0142	01/31/2018	100TH YEAR ANNIVERSARY	2,787.81	Logo Patches
17-406	PAL003	RC17-1033	08/01/2017	17-406/ENGRAVED SIGNAGE	105.54	Engraved Sign
17-406	VEN001	RC17-0965	07/28/2017	100TH ANNIVERSARY	502.55	Banners
					2800	Vehicle Decals
					500	Hard Hat Stickers
					1000	Bumper Stickers
					200	Note Cards
					1200	Press kit folders
					Branding	35,069.04
Book						
17-406	AGO001	RC18-0160	02/16/2018	100TH YEAR ANNIVERSARY	2,469.38	Book Design
17-406	BAN001	RC18-0485	04/25/2018	100TH YEAR ANNIVERSARY	5,136.00	Printing of book
17-406	CRI001	RC18-0205	02/28/2018	100TH YEAR ANNIVERSARY	2,250.00	Writer
17-406	CRI001	RC18-0452	04/02/2018	100TH YEAR ANNIVERSARY	3,740.00	Writer
17-406	USB001	RC17-0974	07/24/2017	100TH ANNIVERSARY	23.91	Palmdale History Book
17-406	USB001	RC18-0487	03/22/2018	100TH YEAR ANNIVERSARY	184.96	Copyright
					2,000.00	Deposit Writer Judy Says this was paid already but
					200.00	Photo
					150.00	Food
					250.00	Staff Photo
					5136	Printing
					6,000.00	Book Designer
					1,000.00	Writer
					Book	28,540.25
Time Capsule						
					1000	Plaque and kit
					Time Capsul	1000
Tshirts						
17-406	AVG002	RC18-0058	01/24/2018	100TH YEAR ANNIVERSARY	765.00	Tshirts
17-406	AVG002	RC18-0069	01/31/2018	100TH YEAR ANNIVERSARY	765.00	Tshirts
17-406	KOS001	RC18-0131	02/01/2018	100TH YEAR ANNIVERSARY	1,665.25	Tshirts
					Tshirts	3,195.25
Party-Public						
17-406	AME006	RC18-0088	01/25/2018	100TH YEAR ANNIVERSARY	349.26	Banner Paper
17-406	FOU001	RC18-0129	02/01/2018	100TH YEAR ANNIVERSARY	106.76	Save the Date Cards
17-406	PIC001	RC18-0194	02/06/2018	100TH YEAR ANNIVERSARY	100.00	Photobooth
17-406	USB001	RC18-0487	03/22/2018	100TH YEAR ANNIVERSARY	1,469.00	Kids Deposit and Aquadog Costume
					5,000.00	Misc Stamps/Magnets/Tshotkies
					900	Bottled Water
					3799	Hydro Flask give aways
					330	Photo Booth
					375	Balloon Face
					2400	Tacos
					1600	Ice Cream
					400	Logo for Podium
					681.17	Andy Gump
					450	DJ
					200	Cleaning Lady
					1300	Security
					300	Volunteer Food
					12000	Tent Rental including audio
					Party	31,760.19
Party-Staff	See Board Memo					
					Party-Staff	-

Tours and Open House

17-406	4IM001	RC18-0136	01/23/2018 100TH YEAR ANNIVERSARY	1,891.53	Bags
17-406	4IM001	RC18-0369	03/15/2018 100TH YEAR ANNIVERSARY	1,480.47	Bags
17-406	ANT008	RC17-1257	10/12/2017 100TH ANNIVERSARY	642.00	Bus
17-406	ANT008	RC18-0470	04/23/2018 100TH YEAR ANNIVERSARY	555.00	Bus
17-406	AVE001	RC17-0962	08/01/2017 100TH ANNIVERSARY	136.25	Maria Avelar
17-406	AVG001	RC17-1085	08/22/2017 100TH ANNIVERSARY	5,315.00	OH-Landscape
17-406	CW1001	RC17-1026	08/04/2017 17-406/AUDIO EQUIP RENTAL	175.00	OH-Audio
17-406	EAN001	RC17-1236	09/30/2017 100TH ANNIVERSARY	270.70	Van
17-406	EAN001	RC17-1407	10/31/2017 100TH ANNIVERSARY	135.36	Van
17-406	EAN001	RC17-1528	11/30/2017 100TH ANNIVERSARY	135.36	Van
17-406	EAN001	RC18-0208	01/31/2018 100TH YEAR ANNIVERSARY	135.36	Van
17-406	EAN001	RC18-0257	02/28/2018 100TH YEAR ANNIVERSARY	135.36	Van
17-406	EAN001	RC18-0399	03/31/2018 100TH YEAR ANNIVERSARY	139.70	Van
17-406	ELI002	RC17-1109	08/04/2017 100TH ANNIVERSARY	65.00	Carpet Cleaning Open House
17-406	GLO001	RC18-0041	12/22/2017 100TH YEAR ANNIVERSARY	625.61	Historical storage cabinet
17-406	QCS001	RC17-1147	08/31/2017 100TH ANNIVERSARY	86.00	OH-Window Cleaning
17-406	SAN002	RC17-0970	08/03/2017 100TH ANNIVERSARY	500.00	OH - Wash heavy equip
17-406	SUN001	RC17-1036	08/04/2017 100TH ANNIVERSARY	660.03	OH-Manlift
17-406	HOM001	RC18-0139	01/28/2018 100TH YEAR ANNIVERSARY	15.57	Unknown
17-406	USB001	RC17-1448	10/23/2017 100TH ANNIVERSARY	54.90	Food for tours
17-406	USB001	RC17-1553	11/22/2017 100TH ANNIVERSARY	400.00	Powdercoating
17-406	USB001	RC17-1256	09/22/2017 100TH ANNIVERSARY	1,495.30	Dam/Plaques/Food
17-406	USB001	RC17-1136	08/22/2017 100TH ANNIVERSARY	3,992.50	Powder/Food/Park Lot Improve
17-406	PET001	RC17-1388	11/09/2017 100TH ANNIVERSARY	44.34	Decorations
17-406	PET001	RC17-0966	07/31/2017 100TH ANNIVERSARY	99.92	Kick Off Event Cake
17-406	USB001	RC17-0974	07/24/2017 100TH ANNIVERSARY	861.17	Kick Off Food and Display Case
17-406	USB001	RC18-0327	02/22/2018 100TH YEAR ANNIVERSARY	5.98	Food
17-406	USB001	RC18-0487	03/22/2018 100TH YEAR ANNIVERSARY	45.00	Historical Displays
17-406	USB001	RC18-0141	01/22/2018 100TH YEAR ANNIVERSARY	19.54	Food
17-406	USB001	RC18-0030	12/31/2017 100TH YEAR ANNIVERSARY	695.85	Display Case Lobby
				2,000.00	Tours
				Tours	22,813.80

Videos

17-406	GIN001	RC17-1133	09/12/2017 100TH ANNIVERSARY	1,000.00	Video
17-406	GIN001	RC17-1380	11/08/2017 100TH ANNIVERSARY	1,600.00	Video
17-406	GIN001	RC18-0033	01/16/2018 100TH YEAR ANNIVERSARY	1,600.00	Video
17-406	TES001	RC17-1314	10/24/2017 100TH ANNIVERSARY	205.00	Video Footage
17-406	USB001	RC17-1553	11/22/2017 100TH ANNIVERSARY	48.86	Video Crew Food
				800.00	Full History Video
				Video	5,253.86

Float

17-406	HOM001	RC17-1137	08/28/2017 100TH ANNIVERSARY	153.81	Float
17-406	HOM001	RC17-1282	09/27/2017 100TH ANNIVERSARY	349.06	Float
17-406	LOW001	RC17-1134	08/25/2017 100TH ANNIVERSARY	320.45	Float
17-406	LOW001	RC17-1235	09/25/2017 100TH ANNIVERSARY	447.35	Float
17-406	LOW001	RC17-1389	10/25/2017 100TH ANNIVERSARY	668.68	Float
17-406	PAT001	RC17-1150	08/30/2017 100TH ANNIVERSARY	68.01	Float
17-406	PAT001	RC17-1206	09/05/2017 100TH ANNIVERSARY	20.87	Float
17-406	PAT001	RC17-1157	09/06/2017 100TH ANNIVERSARY	22.30	Float
17-406	PAT001	RC17-1247	09/25/2017 100TH ANNIVERSARY	397.76	Float
17-406	USB001	RC17-1136	08/22/2017 100TH ANNIVERSARY	1,027.80	Float
				Float	3,476.09

Unknown

17-406	USB001	RC17-0738	06/14/2017 PWD 100TH ANNIVERSARY	25.23	
				<u>131,133.71</u>	

A detailed report on Outreach activities, as listed on the agenda, will be provided at the Board meeting.

PALMDALE RECYCLED WATER AUTHORITY (PRWA)

**MINUTES OF MARCH 19, 2018
REGULAR MEETING AGENDA NO. 39
PALMDALE RECYCLED WATER AUTHORITY (PRWA)
HELD AT CITY OF PALMDALE
CITY HALL COUNCIL CHAMBERS
38300 SIERRA HIGHWAY, SUITE B
PALMDALE, CALIFORNIA
www.cityofpalmdale.org
www.palmdalewater.org**

1. CALL TO ORDER.

Chair Bishop called the meeting to order at 7:00 p.m.

2. PLEDGE OF ALLEGIANCE.

**3. ROLL CALL: CHAIR AUSTIN BISHOP AND DIRECTORS KATHY MAC
LAREN, VINCENT DINO, JUAN CARRILLO, AND HELEN
VELADOR**

PRESENT: Directors Bishop, Mac Laren, Dino, Carrillo, and Velador.

4. APPOINTMENT:

- 4.1 Approve the appointment of Chuck Heffernan as Assistant Executive Director. (Staff Reference: Executive Director LaMoreaux)

Public Comments: None.

Chuck Heffernan introduced himself to the Board and spoke about his work background with the City of Palmdale.

Motion: Move to appoint Chuck Heffernan as Assistant Executive Director.

Moved by Director Mac Laren, seconded by Director Carrillo.

Vote: Motion Carried (5-0)

Yes: Chair Bishop, Directors Mac Laren Dino, Carrillo, and Velador.

5. CONSENT CALENDAR – PUBLIC COMMENTS ONLY:

Public Comments: None.

6. CONSENT CALENDAR:

6.1 Approve the Minutes from the previous meeting held on February 12, 2018.
(Staff Reference: Authority Secretary Smith)

6.2 Approve receipt and filing of the Treasurer's Report for the one month ending January 31, 2018. (Staff Reference: Treasurer-Auditor Williams)

Motion: Move to approve the recommendations and findings on all items listed under this Consent Calendar by one vote.

Moved by Director Velador seconded by Director Carrillo.

Vote: Motion Carried (5-0)

Yes: Chair Bishop, Directors Mac Laren Dino, Carrillo, and Velador.

7. ACTION CALENDAR:

7.1 Authorization for the Public Member Director to attend the 2018 WateReuse California Annual Conference on March 25 - 27, 2018 in Monterey. (Staff Reference: Executive Director LaMoreaux)

Public Comments: None.

Motion: Move to approve authorizing the Public Member Director to attend the 2018 WateReuse California Annual Conference in Monterey.

Moved by Director Mac Laren, seconded by Director Dino.

Vote: Motion Carried (5-0)

Yes: Chair Bishop, Directors Mac Laren Dino, Carrillo, and Velador.

7.2 Approve the compliance agreement with UBS for investing public funds.
(Staff Reference: Treasurer-Auditor Williams)

Treasurer-Auditor Williams presented the staff report and spoke about the agreement and investing.

Public Comments: None.

Motion: Move to approve the compliance agreement with UBS.
Moved by Director Mac Laren, seconded by Director Velador

Vote: Motion Carried (5-0)

Yes: Chair Bishop, Directors Mac Laren Dino, Carrillo, and Velador.

8. NON-AGENDA ITEMS - PUBLIC COMMENTS:

Public Comments: None.

9. DIRECTOR'S REQUESTS FOR NEW AGENDA ITEMS:

Director Carrillo asked for an update on the Amargosa Creek project and stated he would like this item put on the agenda for a future meeting. Director Carrillo stated that he would like Community Workforce Agreement to be considered for this project. Director LaMoreaux stated that he wanted to hold off on presentation regarding Amargosa Creek until next meeting. Director Mac Laren asked if Community Workforce will be used for the Amargosa Creek project. Director LaMoreaux stated the Amargosa Creek project is a recharge project and not related to recycled water. He also stated that there are four (4) different agencies involved in the project (Antelope Valley East Kern Water Agency, Palmdale Water District, City of Palmdale and Los Angeles County Waterworks).

Chair Bishop would like a presentation at a future meeting regarding the recycled water progress.

10. INFORMATIONAL REPORT OF THE BOARD OF DIRECTORS, EXECUTIVE DIRECTOR, AND ASSISTANT EXECUTIVE DIRECTOR.

Director Carrillo mentioned the workshop scheduled for Thursday, March 22, 2018 regarding the reopening of Littlerock Dam. He also stated that he sent an e-mail to Congressman Knight and Congresswoman Chu about the event.

Director Mac Laren spoke about the Water District's position on Littlerock Dam, and stated that if we have information we should provide it to Congresswoman Chu.

Director Velador attended the Palmdale Water District tour on February 15, 2018 and commended Director LaMoreaux on his knowledge of the Water District; attended the State Water meeting on February 15, 2018; attended the Palmdale Water District Town Hall on March 8, 2018; and attended the Smart Water Expo.

Executive Director LaMoreaux stated that Littlerock District staff met with the National Monument manager from the Forest Service and members of the Littlerock Citizen's Committee to talk about the workshop coming up on Thursday. Executive Director LaMoreaux stated that the Forest Service will give a brief history of Littlerock Dam and discuss what led to the closure of the dam. He stated that he will be giving a presentation on the Littlerock Dam sediment removal project. He is hopeful that this will provide a solid basis to work from and a path to move forward.

Chair Bishop asked if there was any grant funding or bonds for the project. Executive Director LaMoreaux stated that only structure being built will be the grade control structure. There are no grants currently available, so the \$6 to \$6.5 million cost will need to be financed. As for the yearly trucking costs, that will be borne by our customers. He stated that the workshop will be held Thursday, March 22, 2018 at 7:00 p.m. in the Littlerock High School Gymnasium.

Executive Director LaMoreaux spoke about briefing the Board on the progress of the recycled water plan and provided them with a handout.

11. CLOSED SESSION – PUBLIC COMMENTS ONLY:

Authority Counsel Dunn and the Board of Directors agreed to defer the Closed Session item to the next meeting.

12. CLOSED SESSION – CONFERENCE WITH LEGAL COUNSEL - ANTICIPATED LITIGATION: A closed session will be held, pursuant to Government Code §54956.9 (d)(4) because the Authority is considering whether to initiate litigation in one case.

12.1 The reason for holding a closed session is for the purpose of conferring with and/or receiving advice from the Authority's legal counsel and to receive direction from the Authority Board regarding the possible initiation of litigation in one matter.

This closed session is being held pursuant to the authority of California Government Code Section 54956.9(d) (4). Number of cases – One.

Based on existing facts and circumstances, the Authority needs to decide whether to initiate litigation. Counsel believes the possible litigation is not yet known to the potential defendant(s).

Closed session is recommended because the Authority will assess the merits of this matter and consider its perspective. Based on existing facts and circumstances it is the opinion of the Authority Counsel that it would prejudice the position of the Authority to discuss these matters in public or

to disclose further the circumstances in this potential case; such disclosure may harm other efforts to resolve the matter and, it is believed the possible defendant(s) is unaware of this possible litigation.

13. CLOSED SESSION.

Closed session was not needed.

14. ANNOUNCEMENT BY AUTHORITY COUNSEL of item(s) discussed in Closed Session.

None.

15. ADJOURNMENT.

The meeting was adjourned at 7:30 p.m. to April 16, 2018 at 7:00 p.m. at the City of Palmdale City Hall Council Chambers located at 38300 Sierra Highway, Suite B, Palmdale, California.

PASSED, APPROVED, and ADOPTED this 21st day of May 2018.

Austin Bishop
Chair

ATTEST:

Rebecca J. Smith,
Secretary

P A L M D A L E W A T E R D I S T R I C T
B O A R D M E M O R A N D U M

DATE: May 23, 2018 **May 29, 2018**
TO: BOARD OF DIRECTORS **Board Meeting**
FROM: Mr. Dennis D. LaMoreaux, General Manager
RE: ***AGENDA ITEM NO. 8.2.a – MAY 2018 GENERAL MANAGER REPORT***

The following is the May report to the Board of activities through April 2018. It is organized to follow the District's six strategic initiatives adopted in January 2018 and is intended to provide a general update on the month's activities. A summary of the initiatives is as follows:



Water Resource Reliability

Complete the 2018 phase of the Upper Armagosa Creek Recharge Project
Ensure Palmdale Recycled Water Authority (PRWA) to be fully operational by year 2020
Adopt new state-of-the-art water treatment technologies
Implement the Antelope Valley Groundwater Adjudication agreement
Complete the grade-control structure for the Littlerock Reservoir Sediment Removal Project
Continue the next phase towards the completion of Palmdale Regional Groundwater Recharge and Recovery Project
Identify and pursue opportunities to increase the reliability of water supply



Organizational Excellence

Offer competitive compensation and benefits package to promote employee retention
Focus Succession Planning Program on ensuring an overlap of training for key positions
Continue providing transparency to our ratepayers
Promote and support leadership training and professional development programs to enhance the District's customers' experience



Systems Efficiency

Implement 2016 Water System Master Plan
Develop a five-year Infrastructure Revitalization Plan to continue the reinvestment and preventative maintenance for aging infrastructure
Explore energy independence
Continue being the industry's leader on the use of Granular Activated Carbon (GAC)
Research and test new technologies to increase efficiencies
Improve safety and training for Directors, employees and customers
Develop a crisis communications plan



Financial Health and Stability

Pursue additional grant funding for all District projects
Adopt a sustainable and balanced rate structure to meet short and long-term needs
Create a five-year financial plan in conjunction with the 2019 Water Rate Plan
Maintain adequate reserve levels, high-level bond rating, and financial stability



Regional Leadership

Enhance relationships with Antelope Valley partnerships, including local water agencies, Antelope Valley State Water Contractors Association and the Palmdale Recycled Water Authority
Expand school water education programs
Engage elected officials in water-related issues
Continue offering career opportunities through the Internship Program
Provide opportunities for local businesses to contract with the District



Customer Care, Advocacy and Outreach

Increase Customer Care accessibility through communication and feedback to enhance customers' experience
Evaluate, develop, and market additional payment options
Be point of communication for customers' water-related public health concerns
Develop the District's Public Outreach Plan
Increase public awareness of the District's history and promote centennial anniversary

This report also includes charts that show the effects of the District's efforts in several areas. They are organized within each strategic initiative and include status of upcoming State Water Resources Control Board's (SWRCB) long-term conservation orders, 20 x 2020 status, the District's total per capita water use trends, 2018 water production and customer use graph, mainline leaks, and the water loss trends for both 12 and 24 month running averages.



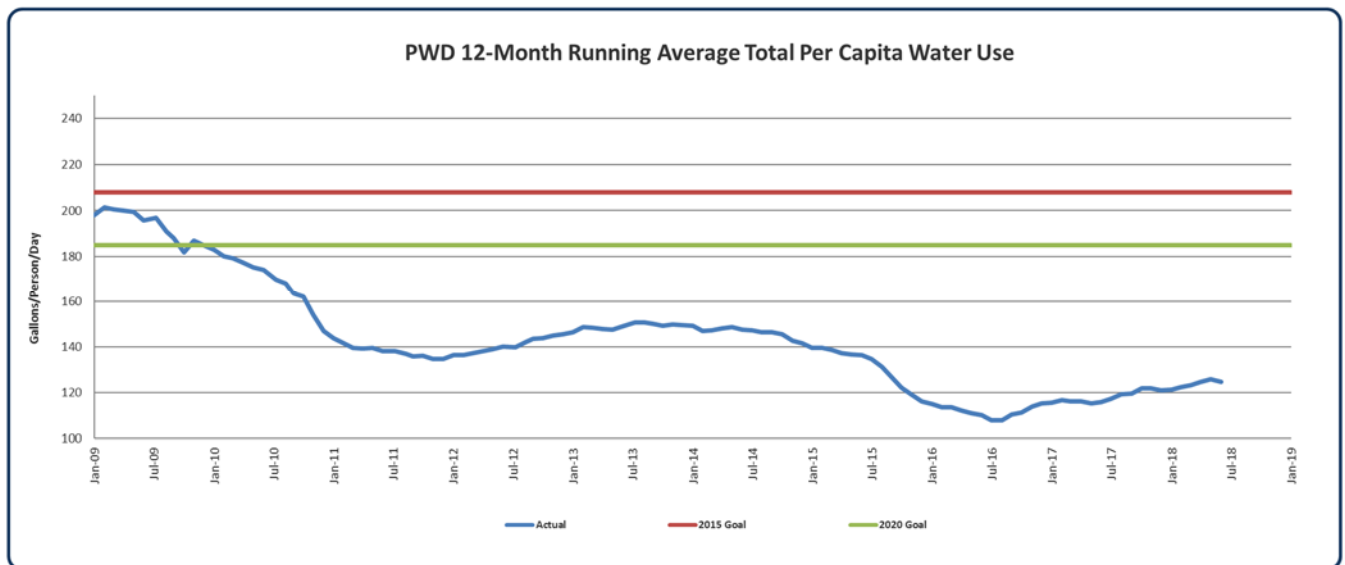
Water Resource Reliability

This initiative includes conservation efforts, water supply projects, and water planning. Recent highlights are as follows:

State Water Resources Control Board (SWRCB) Activities

- The SWRCB is anticipated to replace the 20 x 2020 per capita reduction goals passed by the legislature in 2009 with new long-term water budgeting requirements. These are explained in the “Making Water Conservation a California Way of Life” plan. The bills that would establish this are two-year bills. Some progress has been made on amending the bill and ACWA’s position is more positive.

The District’s compliance with the 20 x 2020 law is evident from the chart titled “PWD 12-Month Running Average Total Per Capita Water Use.”:

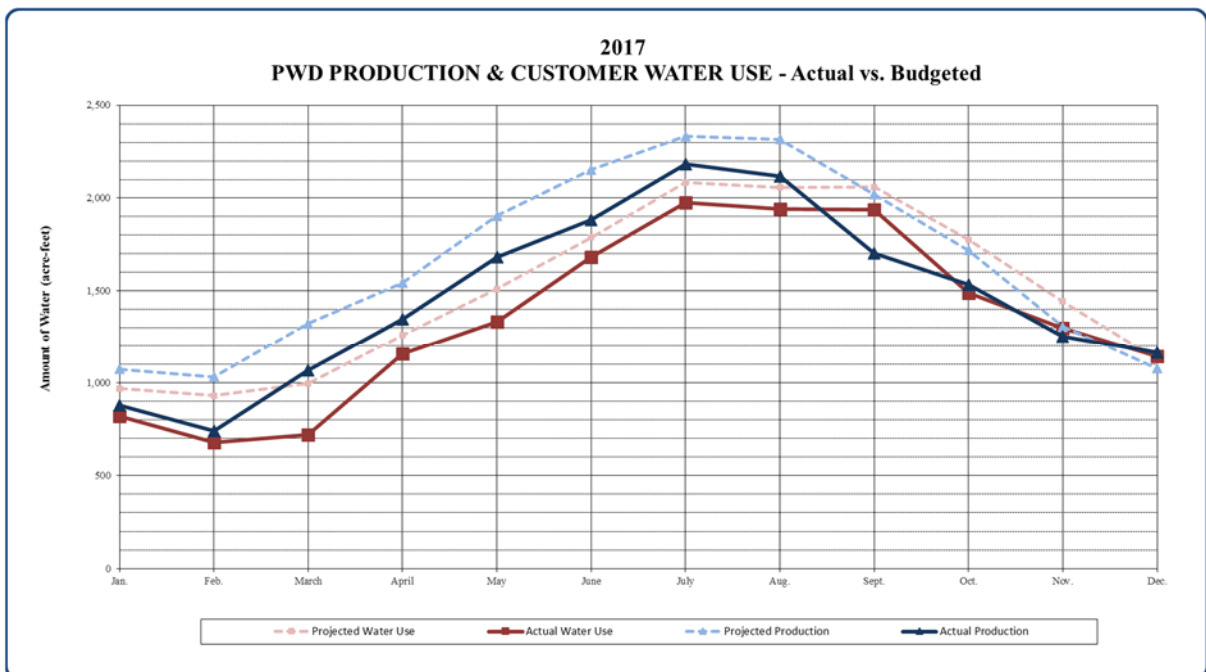
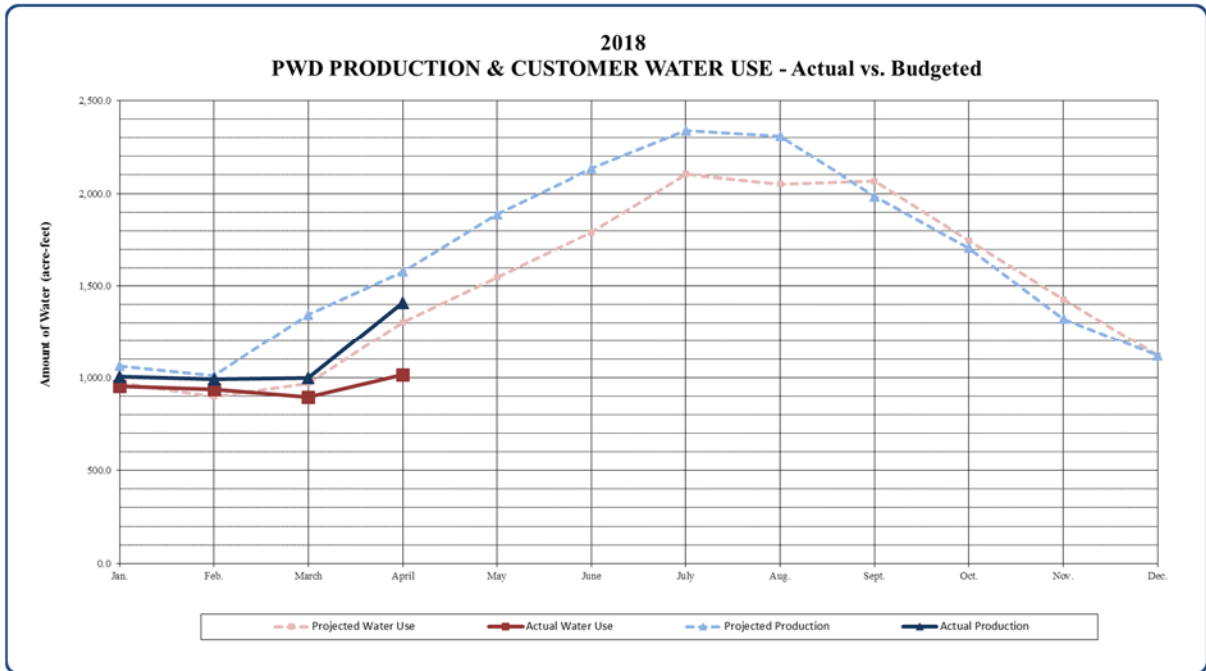


The District’s customers have cut their water use by **45.9%** from the baseline number of 231 and met the 2020 Goal in early 2010. The current Total-GPCD is 125.

Water Supply Information

- The staff plan for water resources in 2017 was based on the State Water Project allocation of 85%. It relied heavily on the SWP and substantially reduced groundwater pumping. This strategy has resulted in increased groundwater levels at District well sites and generated carry-over return flow groundwater production rights for future use. The current 2018 allocation is 35%. Staff initially participated in the 2018 Dry Year Water Program due to this uncertainty. However, with improved conditions and the high cost of water from the program, the District has withdrawn from the program.

- Water and Energy Resources staff has planned for 2018. The plan incorporates available water with the anticipated water usage. The following graph shows actual amounts through April and monthly projections for both production and consumption, based on the prior five years of actual monthly information, for the entire year. It is anticipated that this year's consumption and production pattern will be similar to 2017. The production and consumption numbers so far this year are slightly higher than they have been for several years. The 2017 chart is added in this report for comparison.



Other Items

- The Littlerock Reservoir Sediment Removal Project Environmental Impact Report/Environmental Impact Statement (EIR/EIS) was fully approved in 2017. Work is now underway to obtain the remaining, required permits.

The Grade Control Structure design and contract documents are complete. The construction estimate is \$5.7MM and \$1.0MM for mitigation and monitoring. Financing options were evaluated and a public bond issue will be used to fund the Grade Control Structure construction contract. The financing documents and decision are being prepared for the Board's consideration at the May 29, 2018 meeting.

A citizen's committee, Friends of Littlerock Dam (FOLD), was formed in the Littlerock, Pearblossom, and Juniper Hills area to find a way to reopen the Littlerock Reservoir Recreation area. The District is working with the USFS on this issue in accordance with the commitment made in the EIR/EIS process. Meetings between FOLD, PWD, and USFS have resulted in a series of dates for public access to the Littlerock Recreation area in June 2018. The following is a summary of those dates:

- May 19th 9:00am - Littlerock Dam Committee, USFS, Aspen Environmental, and PWD to meet at Dam to assess what needs to be done in terms of clean up
- June 2nd 8:00am - Public to participate in cleanup of recreation area
- June 9th and 10th – Open to public for recreation
- June 16th and 17th – Open to public for recreation
- PWD did inform the group that they are working to have a contractor on board by mid-June
- PWD explained the work that Aspen is doing to monitor endangered species and other environmental related activities. A fence would be constructed around the construction area and no public is to be within the enclosed area of the fence
- USFS stated that after construction starts the area would not be open for recreation.

The District's bid policy requires projects to be advertised, bids evaluated, and award made to the lowest responsive bidder. This process can take a few months to complete and would not meet the schedule needed for the Grade Control Structure. An approach

to shorten this process is to waive our normal bid policy and negotiate a contract. This is available under Division 11, Irrigation Districts, of the Water Code and allows negotiated contracts except when general obligation bond funds are being used. The District has taken this step a couple times in the recent past. Once for the wind turbine construction in 2003 and then dredging at the Palmdale Lake outlet channel in 2014.

The Board approved a resolution to waive the normal policy at the special meeting on May 3rd. The final plans and contract documents have been sent to a short list of potential contractors. This process is expected to result in the District receiving bids in mid-June. The construction of the Grade Control Structure will take approximately five months to complete and must be done before winter rains make it impossible to work in the reservoir. Therefore, work will ideally start in July.

- The public review of the Draft California Environmental Quality Act (CEQA) EIR for the Palmdale Regional Groundwater Recharge and Recovery Project is complete. The Final EIR was certified by the Board on July 13, 2016, and the Notice of Determination was filed on July 14, 2016. The comments from the SWRCB Recycled Water Division on the Title 22 Engineering Report were addressed and returned for further review. Another set of comments was recently received and are being reviewed.

Construction of monitoring wells is complete, and the initial water quality sampling has been done. The pilot spreading basin was constructed, the 28-day recharge test, and dry/wet cycling is complete. The information from this project is now being assessed by Kennedy/Jenks.

- California Water Fix: There have been recent regulatory approvals moving this project forward. The State Water Contractors and the Department of Water Resources are continuing discussions about the Project's financing and operations. These discussions will result in a clearer picture of the effect on individual contractors. Staff is directly involved in these discussions and will be able to update the Board in the future.



Organizational Excellence

This initiative includes efforts to restructure staff duties and activities to more efficiently provide service to our customers. Recent highlights are as follows:

- The electronic time keeping software was used by staff during most of 2017 and is now our standard practice.

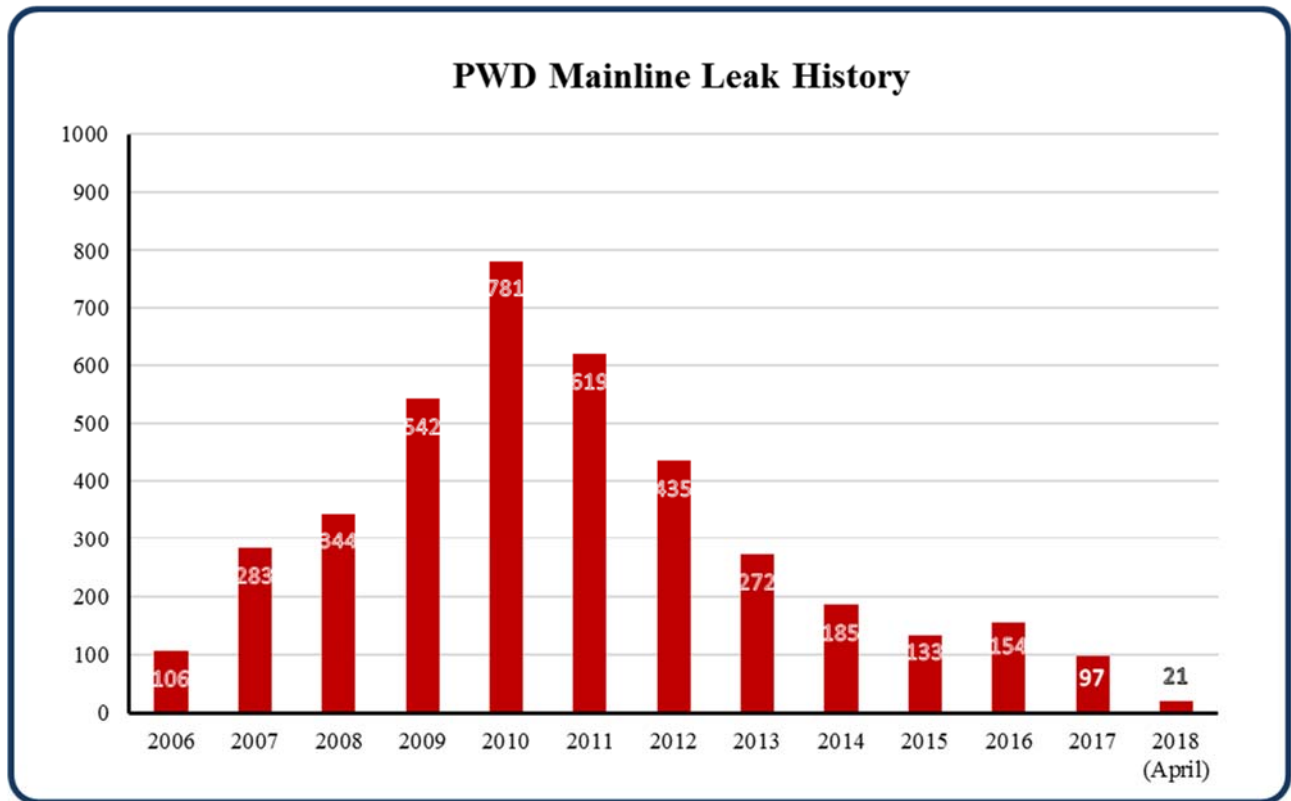
- The 2018 Strategic Plan Update is now published in brochures and on the District's website. The board room posters have been redesigned, printed, and mounted in the board room. A Spanish translation has been printed and is also posted in the Board room.
- The District is working with other members of the Public Water Agencies Group (PWAG) to hire and share the services of an Emergency Preparedness Coordinator. The MOU was approved by the Board, the action of other agencies is complete, a person has been hired, and the initial meeting has been held.
- A new logo for the District as part of the 100-year anniversary was approved by the Board at the October 11, 2017 Board meeting. The transition to the new logo is well under way and will soon include District vehicles.



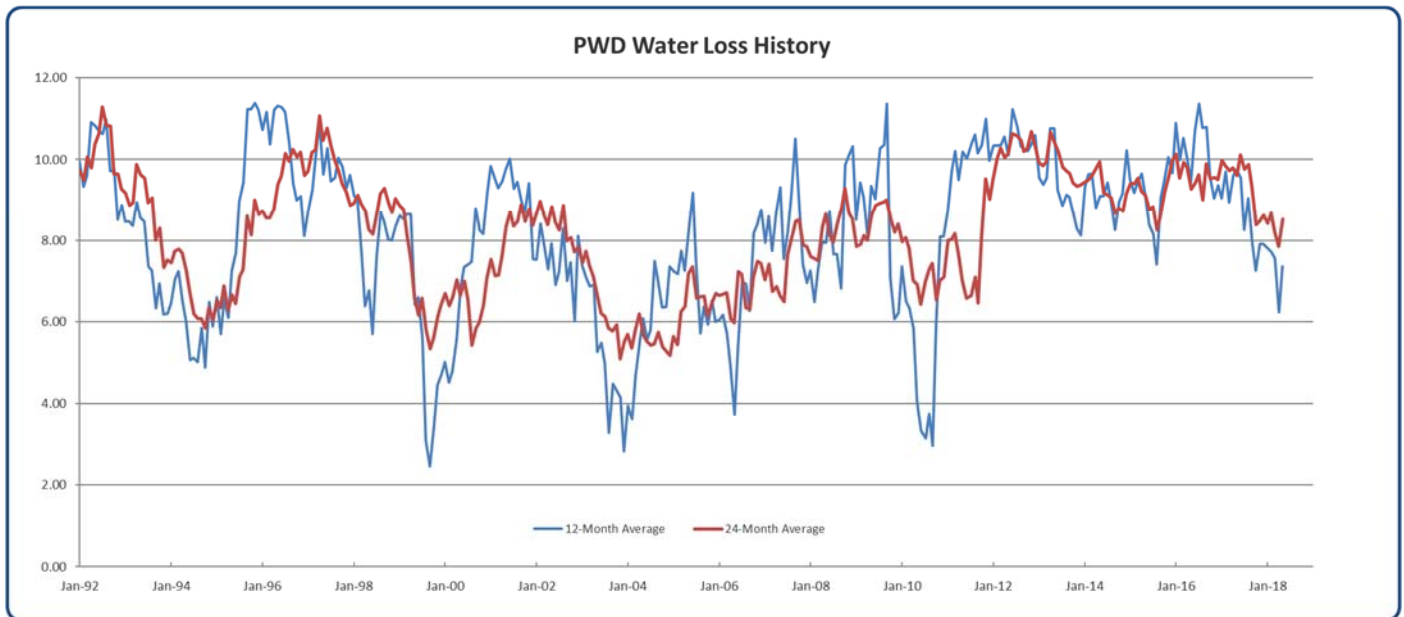
Systems Efficiency

This initiative largely focuses on the state of the District's infrastructure. Recent highlights are as follows:

- Installation of security upgrades for the Leslie O. Carter Water Treatment Plant is operational and complete. Additional cameras are being planned for the two access gates.
- The effects of the District's past efforts in replacing failing water mains and meters can be seen in the reduced number of mainline leaks. This is illustrated in the chart titled "Mainline Leak History." The mainline leaks through April 2018 are 21, and there were 24 service line leaks. The 2017 mainline leak total was 97. This was the first time they were under 100 in over ten years.



- The budgeted meter replacement project of approximately 3,300 meters is being planned for 2018. Staff is exploring having an annual contract for meter replacements similar to how the District contracts for pavement patching.
- Facilities staff is focusing on maintenance activities to incorporate pressure reducing valves and other facilities as their efforts can continue to be more preventative due to a lower number of emergency repairs. A detailed presentation was given to the Board on September 13, 2017 explaining the importance of these activities. The 2018 Budget approved by the Board supports these activities.
- District staff is preparing for the next water main replacement on Avenue S-14 in the Ana Verde Hills area, Camares Drive south of Barrel Springs Road, and in Avenue V-5 off of 47th Street East.
- The positive effect of both water main and water meter replacement programs is shown on the chart titled “PWD Water Loss History.” Water losses are now near 8%.



Financial Health and Stability

- Engineering staff has successfully applied for planning grant funding for the Palmdale Regional Groundwater Recharge and Recovery Project and for the Phase II pipeline for the Palmdale Recycled Water Authority. Application packages for further funding have been determined to be complete by the State. A comment letter was also submitted to raise the priority of both projects in the State's funding plan for 2017/2018.

The State is satisfied with resolutions from the City and the District related to the PRWA Phase II funding application for compliance with their repayment requirements. An amendment to the JPA will also be completed to tie these into PRWA. The only outstanding issue is the State's approach to determining the District's Debt Coverage Ratio. They continue to include non-operating expenses into the calculation. Staff and our financial advisor are still working on this issue.

- Water rate changes of 4.25% for 2017, 2018, and 2019 were approved at a Board meeting held November 9, 2016. The resolution is also unique in that it included criteria that, if met, would allow for lesser changes.
- Engineering/Grant Manager Riley has worked with the Bureau of Reclamation for the acceptance of a Feasibility Report for the Palmdale Regional Groundwater Recharge and

Recovery Project and having it eligible for funding. Mr. Riley and I visited the Bureau in Denver to discuss future funding opportunities. The Bureau staff was very receptive to the project. Our project is one of 30 from across the country that is eligible to compete for a portion of \$10M in this year's Federal budget due to the approved Feasibility Report. The 2017 competition effort did not result in an award of funds from the Bureau. However, lessons from this submittal will be used in future funding competitions.

- The 2018 Budget was approved by the Board in November 2017. The 2018 Budget was published in January 2018.
- Water-Wise Landscape Conversion Program (Cash-for-Grass Program): The District received a \$75,000 Grant from the Bureau of Reclamation in 2017 to assist in funding the Program. The Board approved changes to the program at the October 25, 2017 meeting that are now in effect.



Regional Leadership

This initiative includes efforts to involve the community, be involved in regional activities, and be a resource for other agencies in the area. Recent highlights are as follows:

- Activities of the Palmdale Recycled Water Authority (PRWA) and Antelope Valley State Water Contractors Association have continued.
- The District staff continues to be active in the Antelope Valley Watermaster Board (AVWB) and related meetings.
- District staff is active in the local chambers and is on the board of the Palmdale Chamber and GAVEA.
- Staff developed a plan and budget for a year-long celebration of the District's 100th Anniversary in July, 2018 that was approved by the Board on July 12, 2017. The activities will be announced at this meeting. The first events of an Open House on August 5th and the AV Fair parade and office decorating contest were successful. The first public tour of Littlerock Dam and the Leslie O. Carter Water Treatment Plant was successfully conducted on Thursday, September 21, 2017, and have continued on a monthly basis. The last tour will be held on June 21, 2018.

Historic displays are in the District lobby and at the Palmdale City Library. These are changed monthly to reflect a new decade as we move closer to the 100th Anniversary Celebration on July 22, 2018. The book documenting our first 100 years is also being prepared.

- Staff has worked with the Ad-Hoc Committee on a method to better communicate with and involve our customers in the District's activities. A proposal to create a "PWD Water Ambassador Academy" was approved by the Committee and will be discussed with the Board in the near future.
- The District has expressed its concerns with the proposed Statewide water tax under SB 623 and the 2018 Budget Trailer Bill.
- There are two upcoming bond measures with water-related funds. Proposition 68 will be on the June 2018 ballot. The "Water Supply and Water Quality Act of 2018" will be on the November 2018 ballot. The following is a summary of both measures:

WATER BONDS FUNDING COMPARISON

Funding Category	Proposition 68 \$4.1 B (June Ballot)	November Bond \$8.9 B
	Funding in Millions	Funding in Millions
Forest Protection	\$110	\$120
Recycled Water and Desalination	\$80	\$800
Safe Drinking Water (and Wastewater)	\$330	\$750
SGMA Implementation	\$50	\$640
Conservation	\$20	\$365
Flood Management	\$550	\$500
Stormwater	\$100	\$400
Oroville Dam Safety	\$0	\$222
Madera & Friant-Kern Canals Improvements	\$0	\$750

This is a highlight comparison of the funding categories in the two water bonds. This is not a complete list of the funding categories.

This publication is intended to provide general information about how Proposition 68 and the proposed November water bond would affect ACWA member agencies. Readers are encouraged to research the opponents' and proponents' views on both bonds.

FOR MORE INFORMATION

Questions about the two water bonds may be directed to ACWA Deputy Executive Director for Government Relations **Cindy Tuck** at cindy@acwa.com.



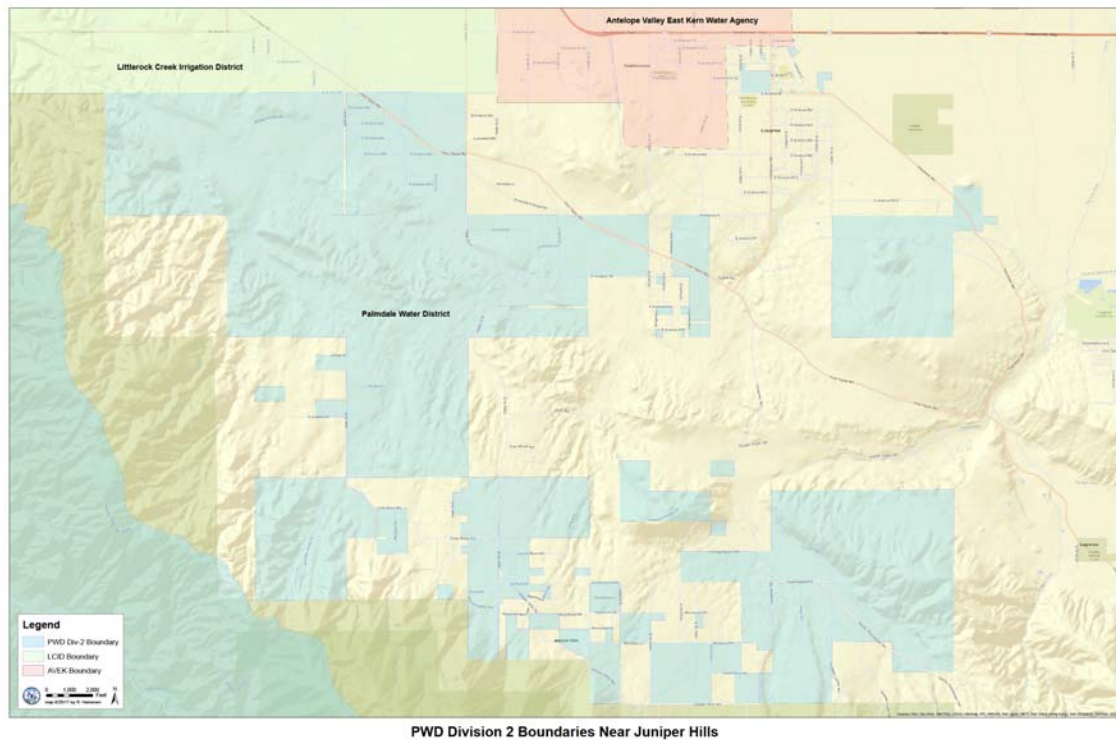
Customer Care and Advocacy

This initiative includes efforts to better serve our customers. Recent highlights are as follows:

- The ability to make payments at 7-Eleven and Family Dollar Store is also continuing to grow.
- A plan to update and improve the front entrance and lobby was approved by the Facilities Committee in March, and work is complete. The kiosk is now installed and functioning in the lobby. It hosts service ticketing for customers, a directory of the office, and displays associated with the 100th Year celebration.
- Customer Care and Finance staff are now exclusively using TruePoint software. TruePoint has continued to provide solid support and programming changes for any needed adjustments. Staff is continuing to recognize and correct transition issues that arise to minimize any effect on customers and other District departments.
- Many residents in the Juniper Hills area rely on water hauling companies for their water. A major local source for these companies is no longer available and more distant water sources increase water costs for the residents.

Numerous properties in the Juniper Hills area annexed to PWD in the early 1960's for access to the State Water Project (SWP) and pay the annual assessment for SWP fixed costs. To date, there has not been a way to use the SWP water due to the lack of a water system. However, this allows PWD to act as a water source for water hauling companies for properties within PWD's boundaries in the Juniper Hills area.

The following map was provided for water hauling companies and residents to help them understand who PWD can help serve.



The District is requiring submittals documenting a water hauling company's status as part of setting a water meter for their use. We are also using copies of property tax bills to verify the water hauling customers are within PWD's boundaries. Staff reviews the tax bill copies for that verification. Aleshire & Wynder also drafted an agreement for water hauling companies that is intended to protect the District and the water hauling customers. There are currently six (6) residents verified for water deliveries.

Staff attended the Juniper Hills Town Council meeting on November 1, 2017 to explain this approach and answer other questions from the residents. This is an unusual situation and shows the District's commitment to serve all customers within its boundaries, even in the absence of a water distribution system.

Staff is also now working with Littlerock Creek Irrigation District (LCID) as an alternate provider of the District's water to these residents. LCID facilities are closer and may be easier for potential water haulers to use.