



**FALLBROOK PUBLIC UTILITY DISTRICT  
MEETING OF THE FISCAL POLICY AND INSURANCE COMMITTEE**

**AGENDA**

**TUESDAY, JANUARY 16, 2024  
2:00 P.M.**

**FALLBROOK PUBLIC UTILITY DISTRICT  
990 E. MISSION RD., FALLBROOK, CA 92028  
PHONE: (760) 728-1125**

**THIS MEETING WILL BE HELD AT THE ABOVE DATE, TIME, AND LOCATION AND MEMBERS OF THE PUBLIC MAY ATTEND IN PERSON AT THE DISTRICT OFFICE LOCATED AT 990 E. MISSION RD., FALLBROOK, CA 92028. FOR THE CONVENIENCE OF MEMBERS OF THE PUBLIC WHO DO NOT WISH TO ATTEND IN PERSON, FALLBROOK PUBLIC UTILITY DISTRICT PROVIDES A MEANS TO OBSERVE AND PROVIDE PUBLIC COMMENTS AT THE MEETING VIA WEB CONFERENCE USING THE BELOW CALL-IN AND WEBLINK INFORMATION. PLEASE NOTE THAT IN THE EVENT OF TECHNICAL ISSUES THAT DISRUPT THE ABILITY OF MEMBERS OF THE PUBLIC TO VIEW THE MEETING OR PROVIDE PUBLIC COMMENTS THROUGH THE WEB CONFERENCE OPTION, THE MEETING WILL CONTINUE.**

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**PUBLIC COMMENTS:** Members of the public may submit public comments and comments on agenda items in one of the following ways:

**SUBMIT COMMENTS BEFORE THE MEETING:**

- By emailing to our Board Secretary at [leckert@fpud.com](mailto:leckert@fpud.com)
- By mailing to the District Offices at 990 E. Mission Rd., Fallbrook, CA 92028
- By depositing them in the District's Payment Drop Box located at 990 E. Mission Rd., Fallbrook, CA 92028

All comments submitted before the meeting by whatever means must be received at least 1 hour in advance of the meeting. All comments will be read to the Board during the appropriate portion of the meeting. Please keep any written comments to 3 minutes.

**REMOTELY MAKE COMMENTS DURING THE MEETING:** The Board President will inquire prior to Board discussion if there are any comments from the public on each item.

- Via Zoom Webinar go to the "Participants List," hover over your name and click on "raise hand." This will notify the moderator that you wish to speak during oral communication or during a specific item on the agenda.
- Via phone, you can raise your hand by pressing \*9 to notify the moderator that you wish to speak during the current item.

**MAKE IN-PERSON COMMENTS DURING THE MEETING:** The Board President will inquire prior to Board discussion if there are any comments from the public on each item, at which time members of the public attending in person may make comments.

**THESE PUBLIC COMMENT PROCEDURES SUPERSEDE THE DISTRICT'S STANDARD PUBLIC COMMENT POLICIES AND PROCEDURES TO THE CONTRARY.**

*If you have a disability and need an accommodation to participate in the meeting, please call the Board Secretary at (760) 999-2704 for assistance.*

**I. PRELIMINARY FUNCTIONS**

CALL TO ORDER / ROLL CALL

PUBLIC COMMENT

**II. ACTION / DISCUSSION -----(ITEMS A-D)**

- A. ISSUANCE OF WATER REVENUE BONDS
- B. FUNDING SOURCE FOR FINAL DETACHMENT PAYMENT
- C. MID-YEAR BUDGET UPDATE
- D. FISCAL YEAR 2024-2025 BUDGET DEVELOPMENT SCHEDULE

**III. ADJOURNMENT OF MEETING**

\* \* \* \* \*

**DECLARATION OF POSTING**

I, Lauren Eckert, Executive Assistant/Board Secretary of the Fallbrook Public Utility District, do hereby declare that I posted a copy of the foregoing agenda in the glass case at the entrance of the District Office located at 990 East Mission Road, Fallbrook, California, at least 72 hours prior to the meeting in accordance with Government Code § 54954.2.

I, Lauren Eckert, further declare under penalty of perjury and under the laws of the State of California that the foregoing is true and correct.

January 11, 2024  
Dated / Fallbrook, CA

/s/ Lauren Eckert  
Executive Assistant/Board Secretary

**M E M O**

**TO:** Fiscal Policy and Insurance (FP&I) Committee  
**FROM:** David Shank, Assistant General Manager/CFO  
**DATE:** January 16, 2024  
**SUBJECT:** Issuance of Water Revenue Bonds

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Purpose

Review with the Committee the draft documents necessary to authorize and execute the District's issuance of Water Revenue Bonds (2024 Bonds) to finance the District's water Capital Improvement Program (CIP).

Summary

The District has now completed the detachment from San Diego County Water Authority (SDCWA) and the annexation into Eastern Municipal Water District's Service area (EMWD). As part of the detachment from SDCWA, the District is required to make a payment of \$6.8 million in March of 2024. The District has chosen to fund the SDCWA payment out of Water System Reserves. In order to offset the financial impact of the detachment payment and maintain the Water System's financial position, the District will fund select Water System's CIP projects with the proposed 2024 Bond proceeds over the next two years, including [insert general description of Projects to be funded].

As presented to the Board in December 2023, the proposed 2024 Bond issuance amount will be \$12 million and the debt structure will include a 30-year term, tax exempt status and a debt repayment structure that provides the Water System with a flat annual debt service profile. Given the volatile interest rate environment, it is not clear what the rates will be on the bonds at the time of pricing but staff will be monitoring the market and providing updates. For this presentation, the assumed interest rate is 6% assumption.

Careful attention has been paid to evaluating the financial impact of the Water System incurring an additional \$12 million in debt in addition to the already \$65.2 million currently outstanding. Based upon conservative assumptions, the Water System is able to both satisfy the Additional Bonds Test required by the existing State Revolving Loan terms and maintain the Water Systems fiscal health.

The attached Resolution authorizes the issuance of the Revenue Bonds subject to certain parameters, the procurement of transaction related professional services included in the cost of issuance, and authorizes District staff to execute various Financing Documents including an Indenture, Preliminary and Final Official Statement, Continuing Disclosure Agreement and Bond Purchase Agreement.

The Indenture is the contract between the District and Bondholders, which details each party's rights and obligations. The Official Statement (OS) is the document that investors review in order to make an informed decision about whether or not to buy the bonds. The Official Statement contains a summary of the bond terms and conditions, a description of the District and its operations, finances, management and governance, descriptions of various 'risk factors' and other any 'material' information. The Continuing Disclosure Agreement (attached to the OS) lists the financial and operating data the District is required to provide Bondholders annually while the bonds remain outstanding, so that Bondholders can monitor their investments.

With the exception of the Authorizing Resolution, all of the documents will be finalized by staff closer to the sale of the bonds. The attached draft documents represent the "form of" the document and include all the material provisions that impact the District.

#### Attachments

1. Resolution
2. Draft Indenture of Trust
4. Draft Preliminary Official Statement

#### Recommended Action

Recommend the Board approve the Resolution authorizing the issuance of the 2024 Water Revenue Bonds; approve the form of the Financing Documents; and authorize staff to finalize and execute the Financing Documents.

## Attachment A

RESOLUTION NO. \_\_\_\_\_

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE FALLBROOK PUBLIC UTILITY DISTRICT AUTHORIZING THE SALE AND ISSUANCE OF WATER REVENUE BONDS IN AN AMOUNT NOT TO EXCEED \$\_\_\_\_\_, APPROVING OFFICIAL STATEMENT AND APPROVING RELATED AGREEMENTS AND ACTIONS**

**WHEREAS**, the Fallbrook Public Utility District (the “District”) owns and operates facilities and property for the collection, treatment, storage and distribution of water within the service area of the District (the “Water System”); and

**WHEREAS**, the Board of Directors wishes at this time to authorize the sale and issuance of the Fallbrook Public Utility District 2024 Water Revenue Bonds (the “Bonds”) under the Bond Law (as herein defined) to provide funds to finance capital improvements of the Water System, which includes pipeline replacements, to be secured by a senior lien on the net revenues of the Water System; and

**WHEREAS**, certain good-faith estimates regarding the Bonds are set forth in Exhibit A attached hereto.

**NOW, THEREFORE, BE IT RESOLVED** by the Board of Directors of the Fallbrook Public Utility District as follows:

**Section 1. Sale and Issuance of Bonds.** The Board of Directors hereby authorizes the sale and issuance of the Bonds under the provisions of Articles 6 of Chapter 4 of Division 7 of the Public Utilities Code, commencing with Section 16575 of said Code (the “Bond Law”), for the purpose of providing funds to finance capital improvement projects of the Water System, so long as the requirements in Section 3 are achieved. Such Bond issuance shall be accomplished as provided in the Indenture of Trust approved below.

**Section 2. Approval of Indenture.** The Bonds shall be issued pursuant to an Indenture of Trust between the District and U.S. Bank National Association, as trustee, which Indenture is hereby approved in substantially the form on file with the Secretary together with any changes therein or additions thereto deemed advisable by the President of the Board of Directors or the General Manager (each an “Authorized Officer”), and the execution thereof by an Authorized Officer shall be conclusive evidence of the approval of such changes and additions. The Board of Directors hereby authorizes and directs an Authorized Officer to execute, and the Secretary to attest, said form of the Indenture of Trust for, and in the name of, the District. The Board of Directors hereby authorizes the delivery and performance of the Indenture of Trust.

**Section 3. Sale of Bonds via Public Offering.** The Board of Directors hereby authorizes the sale of the Bonds through a public offering; provided, however, that the principal amount of the Bonds shall not exceed \$\_\_\_\_\_. Such public offering may be accomplished by either competitive bidding or through negotiation with an underwriter, as

determined by an Authorized Officer to be in the best interests of the District. If negotiation with an underwriter is selected, the Underwriter's discount shall not exceed \$\_\_\_ per \$1,000 or \_\_\_\_% of the principal amount of the Bonds, and the negotiated sale of the Bonds shall be accomplished pursuant to a bond purchase agreement to be entered into between the chosen underwriter and the District, with each Authorized Officer hereby delegated with the authority to negotiate, execute and deliver such bond purchase agreement on behalf of the District, subject to the review by and approval of such agreement by the General Counsel of the District.

If a competitive sale is chosen, the sale of the Bonds shall be undertaken pursuant to and in accordance with a notice of sale for the Bonds that is approved by an Authorized Officer following review and approval by the General Counsel of the District. The Board of Directors hereby delegates to each of the Authorized Officers the authority to accept an offer from the winning bidder to purchase the Bonds from the District if a competitive sale is chosen.

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

The Board of Directors hereby approves the Continuing Disclosure Certificate to be executed by the District, the form of which is attached as an exhibit to the Preliminary Official Statement. Each of the Authorized Officers is hereby authorized and directed to approve any changes in or additions to a final form of said Continuing Disclosure Certificate, and the execution thereof by an Authorized Officer shall be conclusive evidence of approval of any such changes and additions. The final Continuing Disclosure Certificate shall be executed in the name and on behalf of the District by an Authorized Officer.

**Section 5. Documents in Substantially Final Form; Further Authority.** The documents on file with the Secretary and herein approved are in substantially final form; that is, they are final as to important business terms such as the rate covenant undertaken by the District as to the water rates the District will enact so long as the Bonds are outstanding, and parity bond restrictions, governing limitations on future obligations secured by net revenues of the Water System, but do not contain the final pricing terms

resulting from the sale of the Bonds, which will be inserted only after the Bonds are sold. This resolution is intended to be a “parameters resolution,” in which the Board of Directors approves a water revenue bond issue at a not to exceed principal amount and a minimum savings threshold, payable from net revenues of the Water System.

**Section 6. Engagement of Professional Services.** In connection with the sale and issuance of the Bonds, the Board of Directors hereby authorizes the firm Wulff, Hansen & Co. to act as registered municipal advisor to the District and the firm of Best Best & Krieger LLP, to act as bond counsel and disclosure counsel to the District. Each of the Authorized Officers is hereby authorized to execute a professional services agreement with each of the foregoing firms. Each such agreement shall be substantially in the form of a professional services agreement established by the District and shall be subject to review by and approval of the General Counsel of the District.

**Section 7. Official Actions.** The President of the Board, the General Manager, the Assistant General Manager/CFO, are hereby authorized and directed, for and in the name and on behalf of the District, to do any and all things and take any and all actions, including execution and delivery of any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they, or any of them, may deem necessary or advisable in order to issue the Bonds and consummate the transaction described in this Resolution, including executing any commitments or other documents necessary for the District to obtain bond insurance and/or a reserve surety policy for the Bonds, and the execution or taking of such action shall be conclusive evidence of such necessity or advisability.

**Section 8. Effective Date.** This Resolution shall take effect from and after the date of its passage and adoption.

**PASSED AND ADOPTED** by the Board of Directors of the Fallbrook Public Utility District at a regular meeting of the Board held on the 22nd day of January, 2024, by the following vote:

AYES:  
NOES:  
ABSTAIN:  
ABSENT:

\_\_\_\_\_  
President, Board of Directors

ATTEST:

\_\_\_\_\_  
Secretary, Board of Directors



## Exhibit A

### Good-Faith Estimates

In accordance with Government Code Section 5852.1, the following information has been obtained and disclosed to the Board in connection with the approval of the Bonds:

(i) the estimated true interest cost of the Bonds (being 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 \_\_\_\_%,

(ii) the estimated finance charge of the Bonds (being the sum of all fees and charges paid to third parties) is \$\_\_\_\_\_,

(iii) the estimated proceeds of the Bonds expected to be received, net of proceeds for finance charges in (ii) above to be paid from the principal amount of the Bonds and any reserves or capitalized interest paid or funded with Bonds is \$\_\_\_\_\_, and

(iv) the estimated total payment amount of the Bonds (being the sum of debt service plus finance to be paid to final maturity, plus any financing costs not paid from proceeds of the Bonds) is \$\_\_\_\_\_.

The foregoing constitute good faith estimates only, and the final results of any sale of the Bonds may materially differ due to a variety of factors outside the control of the District.

## Attachment B

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INDENTURE OF TRUST

Between the

FALLBROOK PUBLIC UTILITY DISTRICT

and

U.S. BANK NATIONAL ASSOCIATION

as Trustee

Dated as of \_\_\_\_\_, 2024

Relating to:

\$ \_\_\_\_\_  
Fallbrook Public Utility District  
2024 Water Revenue Bonds

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## INDENTURE OF TRUST

This INDENTURE OF TRUST, dated as of \_\_\_\_\_ 1, 2024, is between the FALLBROOK PUBLIC UTILITY DISTRICT, a public utility district duly organized and existing under the Constitution and laws of the State of California (the “District”), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, with a corporate trust office in Los Angeles, California, and being qualified to accept and administer the trusts hereby created (the “Trustee”).

### WITNESSETH:

**WHEREAS**, in order to provide funds for the purpose of financing capital improvements for the District’s Water System (defined herein), the Board of Directors of the District has authorized the issuance of the Fallbrook Public Utility District 2024 Water Revenue Bonds in the aggregate principal amount of \$\_\_\_\_\_ (“Bonds”) under the provisions of Articles 6 of Chapter 4 of Division 7 of the Public Utilities Code, commencing with Section 16575 of said Code (the “Bond Law”); and

**WHEREAS**, the Bonds will be secured by a first pledge of and lien on the Net Revenues derived by the District from the operation of its Water System; and

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

### AGREEMENT:

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

## ARTICLE I

### DEFINITIONS; RULES OF CONSTRUCTION

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



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

**Section 1.03. Interpretation.**

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

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

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

**ARTICLE II**

**ISSUANCE OF BONDS**

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

The District hereby authorizes the issuance of Bonds in the aggregate principal amount of \$\_\_\_\_\_ under the Bond Law for the purposes identified herein. The Bonds are authorized and issued under, and are subject to the terms of, this Indenture and the Bond Law. The Bonds shall be issued and designated the “Fallbrook Public Utility District 2024 Water Revenue Bonds.”

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

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

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

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

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

written request, which written request will remain in effect until rescinded in writing by the Owner. The Trustee will pay principal of the Bonds in lawful money of the United States of America by wire or by check of the Trustee upon presentation and surrender thereof at the Office of the Trustee.

**Section 2.03. Redemption of Bonds.**

(a) Optional Redemption. The Bonds maturing on or after September 1, 20\_\_, are subject to redemption in whole, or in part among maturities on such basis as the District may designate and by lot within a maturity, at the option of the District, on any date on or after September 1, 20\_\_, from any available source of funds, at a redemption price of the principal amount of the Bonds to be redeemed plus accrued interest to the date of redemption, without premium.

(b) Mandatory Sinking Fund Redemption.

The Outstanding Bonds maturing on September 1, 20\_\_ and September 1, 20\_\_ are subject to mandatory sinking fund redemption, in part, on September 1, 20\_\_, and September 1, 20\_\_ respectively, and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date of redemption, without premium, and from sinking payments as follows:

Bonds Maturing on September 1, 20\_\_

Redemption Date <u>(September 1)</u>	<u>Sinking Payment</u>
---	------------------------

(maturity)

Bonds Maturing on September 1, 20\_\_

Redemption Date <u>(September 1)</u>	<u>Sinking Payment</u>
---	------------------------

(maturity)

(c) Extraordinary Redemption from Net Proceeds of Insurance or Condemnation. The Bonds shall be subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date, as determined by the District, from Net Proceeds, upon the terms and conditions of, and as provided for in

Sections 5.04 or 5.05, as applicable, at a Redemption Price equal to the principal amount of the Bonds to be redeemed, without premium, plus accrued interest thereon to the date fixed for redemption. The District shall give written notice of any redemption of Bonds under this subsection (b) to the Trustee at least 45 days prior to the date of redemption or such shorter time as shall be acceptable to the Trustee.

(d) Notice of Redemption. Unless waived by any Owner of Bonds to be redeemed, notice of any redemption of Bonds shall be given, at the expense of the District, by the Trustee, by mailing a copy of a redemption notice by first class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Owner of the Bond or Bonds to be redeemed at the address shown on the Bond Registration Books and containing the information set forth in this Section 2.03(d); provided, that neither the failure to receive such notice nor any immaterial defect in any notice shall affect the sufficiency of the proceedings for the redemption of the Bonds. Redemption notices may be conditional.

All notices of redemption shall be dated and shall state:

- (i) the redemption date,
- (ii) the redemption price of the Bonds being redeemed (the "Redemption Price"),
- (iii) if fewer than all Outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed, including (A) the CUSIP numbers of all Bonds being redeemed; (B) the stated interest rate with respect to each Bond being redeemed; (C) the maturity date of each Bond being redeemed; and (D) any other descriptive information needed to identify accurately the Bonds being redeemed,
- (iv) that on the redemption date the Redemption Price will become due and payable with respect to each such Bond or portion thereof called for redemption, and that interest with respect thereto shall cease to accrue from and after said date, and
- (v) the place or places where such Bonds are to be surrendered for payment of the Redemption Price, which places of payment may include the Office of the Trustee.

Such redemption notices may state that no representation is made as to the accuracy or correctness of the CUSIP numbers printed therein or on the Bonds.

(e) Rescission of Notice of Redemption. The District has the right to rescind any notice of the redemption of Bonds given under Section 2.03(a) by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and

such cancellation shall not constitute an Event of Default. The District and the Trustee have no liability to the Bond Owners or any other party related to or arising from such rescission of notice of redemption. The Trustee shall mail notice of such rescission of notice of redemption in the same manner as the original notice of redemption was sent under Section 2.03.

(f) Deposit of Money. On or prior to any redemption date, the District shall deposit with the Trustee an amount of money sufficient to pay the Redemption Price of all the Bonds or portions of Bonds which are to be redeemed on that date.

(g) Consequences of Notice. Notice of redemption having been given as aforesaid, the Bonds or portions of Bonds so to be redeemed shall, on the redemption date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the District shall default in the payment of the Redemption Price) such Bonds or portions of Bonds shall cease to have interest accrue thereon. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Trustee at the Redemption Price. Installments of interest due on or prior to the redemption date shall be payable as herein provided for payment of interest. Upon surrender for any partial redemption of any Bond, there shall be prepared for the Owner a new Bond or Bonds of the same maturity in the amount of the unredeemed principal. All Bonds which have been redeemed shall be cancelled and destroyed by the Trustee and shall not be redelivered.

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

(i) Manner of Redemption. Whenever any Bonds are to be selected for redemption, the Trustee shall determine, by lot, the numbers of the Bonds to be redeemed, and shall notify the District thereof.

All Bonds redeemed pursuant to this Section shall be cancelled and destroyed pursuant to Section 9.07.

#### **Section 2.04. Book Entry System.**

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

With respect to Bonds the ownership of which is registered in the name of the Nominee, the District and the Trustee has no responsibility or obligation to any Depository

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

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

(c) Transfers Outside Book-Entry System. If either (i) the Depository determines not to continue to act as Depository for the Bonds, or (ii) the District determines to terminate the Depository as such, then the District shall thereupon discontinue the book-entry system with such Depository. In such event, the Depository shall cooperate with the District and the Trustee in the issuance of replacement Bonds by providing the Trustee with a list showing the interests of the Depository System

Participants in the Bonds, and by surrendering the Bonds, registered in the name of the Nominee, to the Trustee on or before the date such replacement Bonds are to be issued. The Depository, by accepting delivery of the Bonds, agrees to be bound by the provisions of this subsection (c). If, prior to the termination of the Depository acting as such, the District fails to identify another Securities Depository to replace the Depository, then the Bonds shall no longer be required to be registered in the Registration Books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging Bonds shall designate, in accordance with the provisions hereof.

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

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

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

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

Only those Bonds bearing a certificate of authentication in the form set forth in Appendix B, manually executed and dated by the Trustee, are valid or obligatory for any

purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee is conclusive evidence that such Bonds have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

### **Section 2.06. Transfer and Exchange of Bonds.**

(a) Transfer. Any Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by a duly authorized attorney of such person, upon surrender of such Bond to the Trustee at its Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. The Trustee shall collect any tax or other governmental charge on the transfer of any Bonds under this Section 2.06. Whenever any Bond or Bonds shall be surrendered for transfer, the District shall execute and the Trustee shall authenticate and deliver to the transferee a new Bond or Bonds of like series, interest rate, maturity and aggregate principal amount. The District shall pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer of Bonds. The Trustee may refuse to transfer, under the provisions of this Section 2.06, either (a) any Bonds during the period 15 days prior to the date established by the Trustee for the selection of Bonds for redemption, or (b) any Bonds selected by the Trustee for redemption.

Prior to any transfer of the Bonds outside the book-entry system (including, but not limited to, the initial transfer outside the book-entry system) the transferor shall provide or cause to be provided to the Trustee all information necessary to allow the Trustee to comply with any applicable tax reporting Parity Debt, including without limitation any cost basis reporting Parity Debt under Internal Revenue Code Section 6045, as amended. The Trustee shall conclusively rely on the information provided to it and shall have no responsibility to verify or ensure the accuracy of such information.

(b) Exchange. The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of the same series, interest rate and maturity. The Trustee shall collect any tax or other governmental charge on the exchange of any Bonds under this subsection (b). The District shall pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange of Bonds. The Trustee may refuse to exchange, under the provisions of this Section 2.06, either (a) any Bonds during the 15 days prior to the date established by the Trustee for the selection of Bonds for redemption or (b) any Bonds selected by the Trustee for redemption.

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



**Section 2.08. Bonds Mutilated, Lost, Destroyed or Stolen.** If any Bond is mutilated, the District, at the expense of the Owner of such Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. The Trustee shall cancel every mutilated Bond surrendered to it and deliver such mutilated Bond to, or upon the order of, the District. If any Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence is satisfactory and if indemnity satisfactory to the Trustee is given, the District, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be incurred by the Trustee in connection therewith. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the District whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Indenture with all other Bonds issued under this Indenture.

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

### ARTICLE III

#### ISSUE OF BONDS; PARITY DEBT

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

**Section 3.02. Deposit and Application of Proceeds.** (a) On the Closing Date, the Trustee shall receive proceeds of the Bonds from the Original Purchaser in the aggregate amount of \$\_\_\_\_\_, representing: the purchase price of the Bonds in the amount of \$\_\_\_\_\_ (representing for the \$\_\_\_\_\_ aggregate principal amount of the Bonds plus/less \$\_\_\_\_\_ of original issue premium/discount, less \$\_\_\_\_\_ of Original Purchaser's discount), as follows:

- (i) The Trustee shall deposit \$\_\_\_\_\_ into the Costs of Issuance;
- (ii) The Trustee shall deposit \$\_\_\_\_\_ into the Project Fund; and
- (iii) [The Trustee shall deposit \$\_\_\_\_\_ into the Reserve Fund.]

**Section 3.03. Costs of Issuance Fund; Project Fund.**

(a) Costs of Issuance Fund. There is hereby established a separate fund to be known as the “Costs of Issuance Fund”, to be held by the Trustee in trust. The Trustee shall disburse moneys in the Costs of Issuance Fund from time to time to pay Costs of Issuance upon submission of a Request of the District stating (i) the person to whom payment is to be made, (ii) the amounts to be paid, and (iii) the purpose for which the obligation was incurred; in each case together with a statement or invoice for each amount requested thereunder. Each such Request of the District 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. One hundred and eighty (180) days after the Closing Date, the Trustee shall transfer any amounts remaining in the Costs of Issuance Fund to the Debt Service Fund to be applied to pay a portion of the interest next coming due and payable on the Bonds.

(b) Project Fund. There is hereby established a separate fund to be known as the “Project Fund”, to be held by the Trustee in trust for the District. Into the Project Fund, the Trustee shall deposit \$\_\_\_\_\_ from the proceeds of the Bonds and other available moneys. The Trustee shall disburse moneys in the Project Fund from time to time to pay Project costs (or to reimburse the District, respectively, for payment of Project costs) upon receipt by the Trustee of a written requisition of an Authorized Representative, the form of which is attached hereto as Exhibit C which: (a) states with respect to each disbursement to be made (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment will be made, (iii) the amount to be disbursed, (iv) that each obligation mentioned therein is a proper charge against the Project Fund and has not previously been disbursed by the Trustee from amounts in the Project Fund, (v) that all conditions precedent set forth in the Indenture with respect to such disbursement have been satisfied, and (vi) that the amount of such disbursement is for a Project cost and (b) specifies in reasonable detail the nature of the obligation. The Trustee shall not be responsible for the representations made in such written requisitions and may conclusively rely thereon and shall be under no duty to investigate or verify any statements made therein. Upon the filing with the Trustee of a written certificate of an Authorized Representative stating that the Project has been completed or that all written requisitions intended to be filed have been filed, the Trustee shall withdraw all amounts then on deposit in the Project Fund and transfer such amounts to the Principal Fund.

Notwithstanding the foregoing provisions of this Section, upon the occurrence and continuation of an Event of Default, the Trustee shall promptly withdraw all amounts then on deposit in the Project Fund and apply such amounts in accordance with the provisions of this Indenture.

**Section 3.04. Issuance of Parity Debt.** The District may issue Parity Debt in such principal amount as it determines, subject to the following conditions precedent:

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

(b) The amount of Net Revenues, as shown by the books of the District for the most recent completed Fiscal Year for which audited financial statements of the District are available, or for any more recent consecutive 12-month period selected by the District, in either case verified by an Independent Accountant or a Financial Consultant or shown in the audited financial statements of the District, plus, at the option of the District any Additional Revenues, are at least equal to 125% of the maximum amount of Debt Service coming due and payable in the current or any future Fiscal Year with respect to (i) the Bonds and all Parity Debt then outstanding and (ii) the Parity Debt then proposed to be issued;

(c) The total amount of outstanding variable-rate debt issued by the District may not exceed 12% of the total principal amount of all outstanding and proposed debt that is secured by Net Revenues of the District; and

(d) The District shall deliver to the Trustee a Certificate of the District certifying, that the conditions precedent to the issuance of such Parity Debt set forth in the foregoing subsections of this Section 3.04 have been satisfied.

For purposes of calculating Net Revenues to demonstrate compliance with paragraph (b) above, Revenues shall not include connection fees, transfers from the Rate Stabilization Fund (if any), or interest income received by the Water Fund during the period for which the calculation of Net Revenues is being made.

**Section 3.05. State Loans.** The District may borrow money from the State and incur State Loans to finance improvements to the Water System. A State Loan may be treated as a Parity Debt for purposes of this Indenture, so long as the District complies with Section 3.04 of this Indenture before incurring said State Loan.

**Section 3.06. Validity of Bonds.** The recital contained in the Bonds that they are issued under the Laws of the State of California is conclusive evidence of their validity and of the regularity of their issuance.

## ARTICLE IV

### REVENUES; FLOW OF FUNDS

**Section 4.01. Pledge of Net Revenues; Debt Service Fund.** The Debt Service Fund, as a special fund, is hereby created. The Debt Service Fund shall be held and maintained by the Trustee. Within such Debt Service fund there shall be held and maintained by the Trustee the Interest Account, the Principal Account and the Sinking Fund Account. The Bonds and all Parity Debt are secured by a first pledge of and lien on all of the Net Revenues. In addition, the Bonds are secured by a pledge of all of the moneys in the Debt Service Fund, including all amounts derived from the investment of such moneys. The Bonds and any Parity Debt are equally secured by a pledge, charge and lien upon the Net Revenues, without priority for series, issue, number or date, and the payment of the interest on and principal of the Bonds and Parity Debt shall be and are secured by an exclusive pledge, charge and lien upon the Net Revenues. So long as

any of the Bonds and Parity Debt are Outstanding, the Net Revenues and such moneys may not be used for any other purpose; except that out of the Net Revenues there may be apportioned such sums, for such purposes, as are expressly permitted by Section 4.02.

**Section 4.02. Receipt, Deposit and Application of Net Revenues.**

(a) Establishment and Maintenance of Water Fund. The District has previously established the Water Fund, which it will continue to hold and maintain for the purposes and uses set forth herein. The District shall deposit all Revenues in the Water Fund promptly upon the receipt thereof, and shall apply amounts in the Water Fund solely for the uses and purposes set forth herein and for the uses and purposes set forth in any Parity Debt Documents.

(b) Application of Amounts in Water Fund. In addition to transfers which are required to be made for repayment of any Parity Debt, which shall be made on a parity basis with amounts required to be made for repayment of the Bonds, the District shall withdraw amounts on deposit in the Water Fund and apply such amounts at the times and for the purposes, and in the priority, as follows:

(i) Operation and Maintenance Costs. The District shall apply amounts on deposit in the Water Fund to pay all Operation and Maintenance Costs when due.

(ii) Debt Service Fund. At least 5 days prior to each Interest Payment Date, the District shall transfer all Net Revenues to the Trustee for the purpose of paying the Bonds and all Parity Debt of the Water System. Not later than the first Business Day preceding each date on which principal of or interest on the Bonds becomes due and payable, the Trustee shall transfer from the Debt Service Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Debt Service Fund), the following amounts in the following order of priority, the requirements of each such account at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) Interest Account. The Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all Bonds and Parity Debt of the Water System then Outstanding.

(b) Principal Account. The Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds and all Parity Debt of the Water System coming due and payable on such Interest Payment Date.

(c) Sinking Account. The Trustee shall deposit in the Sinking Account an amount equal to the aggregate principal amount of the Term Bonds required to be redeemed on such date, if any, pursuant to Section 2.03(b).

(iii) [Reserve Fund. Replenishment of the Reserve Fund to the Reserve Requirement.]

(iv) Other Lawful Uses. So long as no Event of Default has occurred and is continuing, the District may at any time use and apply moneys in the Water Fund for any one or more of the following purposes:

(A) the payment of any subordinate obligations or any unsecured obligations;

(B) the acquisition and construction of extensions and improvements to the Water System;

(C) the payment or retirement of any of the Bonds or any other obligations of the District relating to the Water System; or

(D) any other lawful purpose of the District.

**Section 4.03. Application of Debt Service Fund**. Moneys in the Debt Service Fund shall be applied as follows:

(a) Application of Interest Account. All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to this Indenture).

(b) Application of Principal Account. All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates.

(c) Application of Sinking Account. All moneys on deposit in the Sinking Account shall be used and withdrawn by the Trustee for the sole purpose of redeeming or purchasing Bonds (in lieu of redemption) pursuant to Section 2.03(b).

**Section 4.04. Establishment of the Reserve Fund**. In the event that the amount on deposit in the Reserve Requirement at any time becomes less than the Reserve Requirement, the Trustee shall promptly notify the District of such fact. Promptly upon receipt of any such notice, the District shall transfer to the Trustee an amount sufficient to maintain the Reserve Requirement of the Reserve Requirement. If there shall then not be sufficient Net Water System Revenues on deposit in the Water Revenue Fund to transfer an amount sufficient to maintain the Reserve Requirement of the Reserve Requirement, the District shall be obligated to continue making transfers as Net

Revenues become available in the Water Revenue Fund until there is an amount sufficient to maintain the Reserve Requirement of the Reserve Requirement. No such transfer and deposit need be made to the Reserve Requirement so long as there shall be on deposit therein a sum at least equal to the Reserve Requirement. All money in the Reserve Requirement shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account, the Principal Account and Sinking Account in such order of priority, in the event of any deficiency at any time in any of such accounts or for the retirement of Bonds then Outstanding, except that so long as the District is not in default hereunder, any amount in the Reserve Requirement in excess of the Reserve Requirement shall be withdrawn from the Reserve Requirement semiannually on or before four (4) Business Days preceding each March 1 and September 1 by the Trustee and deposited in the Interest Account. All amounts in the Reserve Requirement on the Business Day preceding the final Interest Payment Date shall be withdrawn from the Reserve Requirement and shall be transferred either (i) to the Interest Account, the Principal Account and Sinking Account, in such order, to the extent required to make the deposits then required to be made pursuant to this Section 4.04 or, (ii) if the District shall have caused to be transferred to the Trustee an amount sufficient to make the deposits required by this Section 4.04, then, at the Request of the District, such amount shall be transferred as directed by the District.

The Reserve Requirement with respect to the Bonds shall be satisfied by the delivery of the Reserve Policy to the Trustee. The Trustee shall credit the Reserve Policy to the Reserve Requirement. Under the terms and conditions of the Reserve Policy, the Trustee shall deliver to the Insurer a demand for payment under the Reserve Policy in the required form at least five Business Days before the date on which funds are required for the purposes set forth in Section 4.04. The Trustee shall comply with all of the terms and provisions of the Reserve Policy for the purpose of assuring that funds are available thereunder when required for the purposes of the Reserve Requirement, within the limits of the coverage amount provided by the Reserve Policy. All amounts drawn by the Trustee under the Reserve Policy will be deposited into the Reserve Requirement and applied for the purposes thereof. The District shall reimburse the Insurer for all draws under Reserve Policy in accordance with the terms of the Reserve Policy and Section 4.09 hereof.

**Section 4.05. Establishment of Rate Stabilization Fund.** The District may establish a "Rate Stabilization Fund," which it shall continue to hold and administer in accordance with this Section 4.05, for the purpose of stabilizing the rates and charges imposed by the District with respect to the Water System. From time to time the District may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secures the Bonds and any Parity Debt, as the District may determine. The Rate Stabilization Fund is currently unfunded.

The District may, but is not required to, withdraw from any amounts on deposit in the Rate Stabilization Fund and deposit such amounts in the Water Fund in any Fiscal Year for the purpose of paying Debt Service coming due and payable in such Fiscal Year. Amounts so transferred from the Rate Stabilization Fund to the Water Fund shall

constitute Gross Revenues for such Fiscal Year (except as otherwise provided herein), and shall be applied for the purposes of the Water Fund. Amounts on deposit in the Rate Stabilization Fund shall not be pledged to or otherwise secure the Bonds or any Parity Debt. The District has the right at any time to withdraw any or all amounts on deposit in the Rate Stabilization Fund and apply such amounts for any lawful purposes of the District relating to the Water System.

**Section 4.06. Equal Rights.** It is the intention of the District that the Bonds and Parity Debt of the Water System shall be secured by and payable from all moneys deposited in the Water Fund on an equal basis. To the extent that moneys deposited in the Water Fund are insufficient to pay debt service on the Bonds and Parity Debt of the Water System as it becomes due, the Bonds and Parity Debt of the Water System shall be payable on a pro-rata basis from all available moneys deposited in the Water Fund. Additionally, any moneys which remain in the Water Fund after payment of principal of and interest on the Bonds shall be used to pay the Insurer for any other unpaid advances under the Reserve Policy.

**Section 4.07. Investments.**

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

(b) Investment of Funds Held by Trustee. The Trustee shall invest moneys in the funds and accounts held by it hereunder in Permitted Investments specified in the Request of the District delivered to the Trustee at least two Business Days in advance of the making of such investments. The Trustee may rely conclusively upon the investment direction of the District as to the suitability and legality of the directed investments. In the absence of any such direction from the District, the Trustee shall invest any such moneys solely in Permitted Investments described in clause (e) of the definition thereof; provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received a Request of the District specifying a specific money market mutual fund that satisfies the requirements of said paragraph in which such investment is to be made and, if no such Request of the District is so received, the Trustee shall notify the District that a Request of the District is needed.

(c) General Investment Provisions. Parity Debt purchased as an investment of moneys in any fund or account shall be deemed to be part of such fund or account. Whenever in this Indenture the District is required to transfer any moneys to the Trustee, such transfer may be accomplished by transferring a like amount of Permitted Investments. All interest or gain derived from the investment of amounts in any of the funds or accounts held by the Trustee hereunder shall be retained in the respective fund or account from which such investment was made. For purposes of acquiring any investments hereunder, the Trustee may commingle funds held by it hereunder upon receipt by the Trustee of the Request of the District. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of any investment and may impose

its customary charges therefor. The Trustee has no liability for losses arising from any investments made under this Section.

The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, at no additional cost, the District specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the District periodic transaction statements which include detail for all investment transactions made by the Trustee hereunder.

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

#### **Section 4.08. 4.08 Valuation and Disposition of Investments.**

(a) Except as otherwise provided in subsection (b) of this Section, the District covenants that all investments of amounts deposited in any fund or account created by or under this Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of Section 148 of the Tax Code) shall be acquired, disposed of and valued (as of the date that valuation is required by this Indenture or the Tax Code) at Fair Market Value as such term is defined in subsection (d) below.

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

(c) Except as provided in the preceding subsection (b), for the purpose of determining the amount in any fund, the Trustee shall value Permitted Investments credited to such fund at least annually at the Fair Market Value thereof, on September 1 of each year. The Trustee shall have no duty in connection with the determination of Fair Market Value other than to follow: (i) its normal practices in the purchase, sale and determining the value of Permitted Investments; and (ii) the investment directions of the District. The Trustee may utilize and rely on computerized securities pricing services that may be available to it, including those available through its regular accounting system. If and as directed by the District in writing, the Trustee shall sell or present for redemption any Permitted Investment so purchased by the Trustee whenever it is necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited, and the Trustee has no liability or responsibility for any loss resulting therefrom. In determining the Fair Market Value of Authorized Investments, the Trustee may use and rely conclusively and without liability upon any generally recognized pricing information service (including brokers and dealers in securities) available to it.



(d) For purposes of this Section 4.08, the term “Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the Tax Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, or (iii) the investment is a United States Treasury Security -- State and Local Government Series which is acquired in accordance with applicable regulations of the United States Bureau of Public Debt.

**Section 4.09. [Insurance/Reserve Policy Provisions.]**

**ARTICLE V**

**FINANCIAL COVENANTS**

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

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

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

**Section 5.04. Sale or Eminent Domain of Water System.** Except as provided herein, the District covenants that the Water System will not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole, if such encumbrance, sale, lease, pledge, charge or other disposition would

materially impair the ability of the District to pay the principal of or interest on the Bonds or any Parity Debt, or would materially adversely affect its ability to comply with the terms of this Indenture or any Parity Debt Documents. The District may not enter into any agreement which impairs the operation of the Water System or any part of it necessary to secure adequate Net Revenues to pay the Bonds and any Parity Debt, or which otherwise would impair the rights of the Bond Owners with respect to the Net Revenues.

The Net Proceeds received as awards as a result of the taking of all or any part of the Water System by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the District, shall, at the written direction of the District, either (a) be used for the acquisition or construction of improvements and extension of the Water System, or (b) be applied on a pro rata basis to redeem the Bonds and any Parity Debt in accordance with this Indenture and the related Parity Debt Documents.

**Section 5.05. Insurance.** The District will at all times maintain with responsible insurers all such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Water System. The District shall also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the District, the Trustee and the Owners of the Bonds. Any insurance required by this Section may be maintained by the District in the form of self-insurance through a joint powers agreement or otherwise. The Trustee has no liability to determine whether the District is in compliance with the provisions of this Section 5.05.

The Net Proceeds collected by the District from insurance against accident to or destruction of any portion of the Water System shall be used to repair or rebuild such damaged or destroyed portion of the Water System, and to the extent not so applied, shall be applied on a pro rata basis to redeem the Bonds and any Parity Debt in accordance with this Indenture and the related Parity Debt Documents.

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

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

**Section 5.07. Rates and Charges.** The District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Fiscal Year, which are at least sufficient, after making allowances for

contingencies and error in the estimates, to yield Gross Revenues sufficient to pay the following amounts:

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

(b) The principal of and interest on the Bonds and any Parity Debt as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such interest is payable from proceeds of Parity Debt deposited for such purpose; and

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

In addition, the District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Fiscal Year which are sufficient to yield Net Revenues which are at least equal to 120% of the amount described in the preceding clause (b) for such Fiscal Year. For purposes of this paragraph, the amount of Net Revenues for a Fiscal Year will be computed on the basis that (a) any transfers from the Rate Stabilization Fund into the Water Fund in such Fiscal Year are included in the calculation of Net Revenues, as provided in Section 4.05, and (b) any transfers from the Water Fund into the Rate Stabilization Fund in such Fiscal Year are deducted from the amount of Net Revenues to the extent such deposits are made from Gross Revenues received by the District during that Fiscal Year.

**Section 5.08. Superior and Subordinate Obligations; Parity Debt.** The District may not issue or incur any additional bonds or other obligations having any priority over the Bonds in the payment of principal or interest out of the Net Revenues. Nothing herein limits or affects the ability of the District to issue or incur obligations which are either unsecured or which are secured by an interest in the Net Revenues which is junior and subordinate to the pledge of and lien upon the Net Revenues established hereunder. Parity Debt may be issued or incurred only in accordance with Sections 3.04 and 3.05.

**Section 5.09. Tax Covenants.**

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

(b) The District shall assure that the proceeds of the Bonds are not used in a manner which would cause the Bonds to become "private activity bonds" within the meaning of section 141(a) of the Tax Code or to meet the private loan financing test of Section 141(c) of the Tax Code.

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

(d) The District shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the Bond proceeds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Tax Code.

(e) The District shall pay when due an amount equal to excess investment earnings to the United States of America in such amounts, at such times and in such manner as may be required under the Tax Code, such payments to be made from any source of legally available funds of the District.

The Trustee has no duty to monitor the compliance by the District with any of the covenants contained in this Section 5.09.

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

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

## ARTICLE VI

### THE TRUSTEE

#### **Section 6.01. Duties, Immunities and Liabilities of Trustee.**

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

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

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

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

after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the District.

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

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

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

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

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

**Section 6.03. Rights and Liabilities of Trustee.**

(a) The recitals of facts herein and in the Bonds contained are taken as statements of the District, and the Trustee has no responsibility for the correctness of the same, nor does it have any liability whatsoever therefor, nor make any representations as to the validity or sufficiency of this Indenture or of the Bonds nor shall it incur any responsibility in respect thereof, other than as expressly stated herein. The Trustee is, however, responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee is not liable in connection with the performance of its duties

hereunder, except for its own negligence or willful misconduct. The Trustee is not liable for the acts of any agents of the Trustee selected by it with due care. The Trustee may become the Owner of any Bonds with the same rights it would have if it were not Trustee and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of the Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding. The Trustee, either as principal or agent, may engage in or be entrusted in any financial or other transaction with the District.

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

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

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

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

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

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

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

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

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

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

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

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

**Section 6.04. Right to Rely on Documents.** The Trustee is protected in acting upon any notice, resolution, requisition, request, consent, order, certificate, report, opinion, facsimile transmission, electronic mail or other paper or document believed by it



to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, including, without limitation, Bond Counsel or other counsel of or to the District, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by the Trustee hereunder in accordance therewith.

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

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

The Trustee shall have the right to accept and act upon instructions, including funds transfer instructions ("Instructions") given pursuant to this Indenture and delivered using Electronic Means ("Electronic Means" means the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Trustee, or another method or system specified by the Trustee as available for use in connection with its services hereunder); provided, however, that the District shall provide to the Trustee an incumbency certificate listing officers with the authority to provide such Instructions ("Authorized Officers") and containing specimen signatures of such Authorized Officers, which incumbency certificate shall be amended by the District, whenever a person is to be added or deleted from the listing. If the District elects to give the Trustee Instructions using Electronic Means and the Trustee in its discretion elects to act upon such Instructions, the Trustee's understanding of such Instructions shall be deemed controlling. The District understands and agrees that the Trustee cannot determine the identity of the actual sender of such Instructions and that the Trustee shall conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Trustee have been sent by such Authorized Officer. The District shall be responsible for ensuring that only Authorized Officers transmit such Instructions to the Trustee and that the District and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the District. 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 directions conflict or are inconsistent with a subsequent written instruction. The District agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions 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; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the District; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Trustee immediately upon learning of any compromise or unauthorized use of the security procedures.

The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys, including Bond proceeds, which shall be released or withdrawn in accordance with the provisions hereof.

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

**Section 6.06. Compensation and Indemnification.** The District shall pay to the Trustee from time to time compensation for all services rendered under this Indenture and also all expenses, charges, legal and consulting fees and other disbursements and those of its attorneys (including any allocated costs of internal counsel), agents and employees, incurred in and about the performance of its powers and duties under this Indenture. The Trustee has a first lien on the Net Revenues and all funds and accounts held by the Trustee hereunder to secure the payment to the Trustee of all fees, costs and expenses, including compensation to its experts, attorneys and counsel incurred in declaring such Event of Default and in exercising the rights and remedies set forth in Article VIII. Any such expenses incurred by the Trustee shall be deemed to constitute a substantial contribution to the trust estate which secures the Bonds. When the Trustee incurs expenses or renders services after the occurrence of an Event of Default, such expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

The District further covenants and agrees to indemnify and save the Trustee and its officers, directors, agents and employees, harmless against any loss, expense, including legal fees and expenses, and liabilities, whether or not litigated, suits, actions, and judgments, which it may incur arising out of or in the exercise and performance of its powers and duties hereunder, including the costs and expenses of defending against any claim of liability and of enforcing any remedies hereunder and under any related documents, but excluding any and all losses, expenses and liabilities which are due to the negligence or willful misconduct of the Trustee, its officers, directors, agents or employees. The obligations of the District under this Section 6.06 shall survive resignation or removal of the Trustee under this Indenture and payment of the Bonds and discharge of this Indenture.

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

## ARTICLE VII

### MODIFICATION AND AMENDMENT OF THIS INDENTURE

#### Section 7.01. Amendments Permitted.

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

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

(ii) permit the creation by the District of any mortgage, pledge or lien upon the Gross Revenues or Net Revenues superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as expressly permitted by this Indenture), or

(iii) reduce the percentage of Bonds required for the affirmative vote or written consent to an amendment or modification, or

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

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

(i) to add to the covenants and agreements of the District contained in this Indenture, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power herein reserved to or conferred upon the District;

(ii) to cure any ambiguity, or to cure, correct or supplement any defective provision contained in this Indenture, or in any other respect whatsoever as the District deems necessary or desirable, provided under any circumstances that such modifications or amendments do not materially adversely affect the interests of the Owners in the opinion of Bond Counsel filed with the District and the Trustee;

(iii) to provide for the issuance of Parity Debt under Section 3.04, and to provide the terms and conditions under which such Parity Debt may be issued, including but not limited to the establishment of special funds and accounts relating thereto and any other provisions relating solely thereto, subject to and in accordance with the provisions of Section 3.04; and

(iv) to amend any provision hereof to assure the exclusion from gross income of interest on the Bonds for federal income tax purposes under the Tax Code, in the opinion of Bond Counsel filed with the District and the Trustee.

(c) Notice of Amendments. The District shall deliver or cause to be delivered a draft of any Supplemental Indenture to Moody's and/or S&P, if and only if such rating District is then providing a rating on the Bonds, at least 10 days prior to the effective date of such Supplemental Indenture under this Section 7.01.

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

**Section 7.03. Endorsement or Replacement of Bonds After Amendment.** After the effective date of any amendment or modification hereof under this Article VII, the District may determine that any or all of the Bonds shall bear a notation, by endorsement in form approved by the District, as to such amendment or modification and in that case upon demand of the District the Owners of such Bonds shall present such Bonds for that purpose at the Office of the Trustee, and thereupon a suitable notation as to such action shall be made on such Bonds. In lieu of such notation, the District may determine that new Bonds shall be prepared and executed in exchange for any or all of the Bonds and in that case upon demand of the District the Owners of the Bonds shall present such Bonds for exchange at the Office of the Trustee without cost to such Owners.

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

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

## ARTICLE VIII

### EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS

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

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

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

(c) Failure by the District to observe and perform any of the other covenants, agreements or conditions on its part contained in this Indenture or in the Bonds, if such failure has continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, has been given to the District by the Trustee; provided, however, if in the reasonable opinion of the District the failure stated in the notice can be corrected, but not within such 30-day period, such failure shall not constitute an Event of Default if the District institutes corrective action within such 30-day period and thereafter diligently and in good faith cures the failure within 60 days after the written notice of default thereof.

(d) The District commences a voluntary bankruptcy case under Title 11 of the United States Code or any substitute or successor statute.

If an Event of Default occurs and is continuing, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding the Trustee shall (i) for any default listed in Section 8.01(a), (b) or (d) only, declare the principal of the Bonds, together with the accrued interest thereon, to be due and payable immediately, and upon any such declaration the same will become immediately due and payable, anything in this Indenture or in the Bonds to the contrary notwithstanding, and (ii) subject to the provisions of Section 8.06, exercise any other remedies available to the Trustee and the Bond Owners in law or at equity to enforce the rights of the Bond Owners under this Indenture, including the right, by action brought pursuant to the California Code of Civil Procedure, or as otherwise provided by law, to obtain the issuance of a writ of mandamus enforcing the duty of the District to take all

steps necessary for the payment of principal of and interest on the Bonds, and other amounts due hereunder.

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

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

**Section 8.02. Application of Funds Upon Event of Default or Acceleration.**

All amounts received by the Trustee under any right given or action taken by the Trustee under the provisions of this Indenture shall be applied by the Trustee as follows and in the following order:

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

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

**Section 8.03. Power of Trustee to Control Proceedings.** If the Trustee, upon the happening of an Event of Default, takes any action, by judicial proceedings or otherwise, in the performance of its duties hereunder, whether upon its own discretion, upon the request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, it has full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action and the Trustee has been indemnified to its satisfaction. The Trustee may not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding Bonds hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation. Nothing herein shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Owner any plan of reorganization, arrangement, adjustment, or composition affecting the Bonds or the rights of any Owner thereof, or to authorize the Trustee to vote in respect of the claim of any Owner in any such proceeding without the approval of the Owners so affected.

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

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

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

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

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

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

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

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

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

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

**Section 8.06. Actions by Trustee as Attorney-in-Fact.** Any suit, action or proceeding which any Owner has the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all Owners similarly situated and the Trustee is hereby appointed (and the successive respective Owners by taking and holding the Bonds shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact, subject to the provisions of Article VI. Notwithstanding the foregoing provisions of this Section 8.06, the Trustee has no duty to enforce any such right or remedy unless it has been indemnified to its satisfaction for any additional fees, charges and expenses of the



Trustee related thereto, including without limitation, fees and charges of its attorneys and advisors.

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

## ARTICLE IX

### MISCELLANEOUS

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

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

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

#### **Section 9.03. Defeasance of Bonds.**

(i) If the District pays and discharges the entire indebtedness on any Bonds in any one or more of the following ways:

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

(b) subject to the conditions set forth in subsection (ii) below, by irrevocably depositing with the Trustee or an escrow bank, in trust, at or before maturity, an amount of cash which, together with the available amounts then on deposit in the funds and accounts established under this Indenture, in the opinion or report of an Independent Accountant is fully sufficient to pay such Bonds, including all principal and interest;

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

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

then, at the election of the District, and notwithstanding that any such Bonds have not been surrendered for payment, the pledge of the Net Revenues and other funds provided for in this Indenture and all other obligations of the Trustee and the District under this Indenture with respect to such Bonds shall cease and terminate, except only: the obligations of the District under Section 5.09 (Tax Covenants), the obligation of the Trustee to transfer and exchange Bonds hereunder, the obligation of the District to pay or cause to be paid to the Owners of such Bonds, from the amounts so deposited with the Trustee, all sums due thereon, and the obligations of the District to compensate and indemnify the Trustee under Section 6.06.

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

(ii) To accomplish defeasance pursuant to paragraphs (i)(b) or (i)(c) above, the District shall cause to be delivered (a) a report of an Independent Accountant verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity date (“Verification”), (b) an escrow agreement or irrevocable refunding instructions, and (c) an opinion of Bond Counsel to the effect that the Bonds are no longer “Outstanding” under this Indenture; each Verification and defeasance opinion to be acceptable in form and substance, and addressed, to the District and Trustee.

(iii) In the case of a defeasance or payment of all of the Bonds Outstanding in accordance with this Section 9.03, the Trustee shall pay all amounts held by it in any funds or accounts hereunder, which are not required for said purpose or for payment of amounts due the Trustee under Section 6.06, to the District.

(iv) Bonds shall be deemed “Outstanding” under this Indenture unless and until they are in fact paid and retired or the above criteria are met.

**Section 9.04. Execution of Documents and Proof of Ownership by Owners.**

Any request, consent, declaration or other instrument which this Indenture may require or permit to be executed by any Owner may be in one or more instruments of similar tenor, and shall be executed by such Owner in person or by their attorneys appointed in writing. Except as otherwise herein expressly provided, the fact and date of the execution by any Owner or his attorney of such request, consent, declaration or other instrument, or of such writing appointing such attorney, may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state in which he purports to act, that the person signing such request, declaration or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. The ownership of Bonds and the amount, maturity, number and date of ownership thereof are conclusively proved by the Registration Books. Any request, declaration or other instrument or writing of the Owner of any Bond binds all future Owners of such Bond in respect of anything done or suffered to be done by the District or the Trustee in good faith and in accordance therewith.

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

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

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

**Section 9.08. Funds and Accounts.** Any fund or account required by this Indenture to be established and maintained by the District or the Trustee may be established and maintained in the accounting records of the District or the Trustee, as the case may be, either as a fund or an account, and may, for the purpose of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account. All such records with respect to all such funds and accounts

held by the District shall at all times be maintained in accordance with generally accepted accounting principles and all such records with respect to all such funds and accounts held by the Trustee shall be at all times maintained in accordance with corporate trust industry practices; in each case with due regard for the protection of the security of the Bonds and the rights of every Owner thereof.

**Section 9.09. Notices.** All written notices to be given under this Indenture shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or at such address as the party may provide to the other party in writing from time to time. The District or the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

If to the District:      Fallbrook Public Utility District  
                                    990 E Mission Road  
                                    Fallbrook, California 92028  
                                    Attn: General Manager

If to the Trustee:      U.S. Bank National Association  
                                    One Embarcadero Center, Suite 2100  
                                    San Francisco, CA 94111  
                                    Attn: Global Corporate Trust

**Section 9.10. Unclaimed Moneys.** Anything contained herein to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or premium (if any) on or principal of the Bonds which remains unclaimed for one year after the date when the payments of such interest, premium and principal have become payable, if such money was held by the Trustee at such date, or for one year after the date of deposit of such money if deposited with the Trustee after the date when the interest and premium (if any) on and principal of such Bonds have become payable, shall be repaid by the Trustee (without liability for interest) to the District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of the principal of and interest on such Bonds.

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

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

*(Signature page follows.)*

**IN WITNESS WHEREOF**, the Fallbrook Public Utility District has caused this Indenture to be signed in its name by the General Manager and attested by the Secretary, and U.S. Bank National Association, in token of its acceptance of the trust created hereunder, has caused this Indenture to be signed in its corporate name by its officer identified below, all as of the day and year first above written.

FALLBROOK PUBLIC UTILITY DISTRICT

By: \_\_\_\_\_  
General Manager

ATTEST

\_\_\_\_\_  
Secretary

U.S. BANK TRUST COMPANY,  
NATIONAL ASSOCIATION, as Trustee

By: \_\_\_\_\_  
Authorized Signatory

*-Signature page-  
Indenture of Trust*

## APPENDIX A

### DEFINITIONS

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

- (i) An allowance for Net Revenues from any additions or improvements to or extensions of the Water System to be made from the proceeds of such Parity Debt in an amount equal to the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a Financial Consultant.
- (ii) An allowance for Net Revenues arising from any increase in the charges made for service from the Water System which has been duly approved by the Board of Directors of the District prior to the incurring of such Parity Debt, but which, during all or any part of the most recent completed Fiscal Year for which audited financial statements of the District are available, or for any more recent consecutive 12-month period selected by the District under Section 3.04(b), was not in effect, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or 12-month period, all as shown by the certificate or opinion of a Financial Consultant.

[“Annual Debt Service” means, for each Bond Year, the sum of (i) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled, and (ii) the principal amount of the Outstanding Bonds scheduled to be paid.]

“Bond Counsel” means (a) Best Best & Krieger LLP, or (b) any other attorney or firm of attorneys appointed by or acceptable to the District of nationally-recognized experience in the issuance of Obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

“Bond Law” means the provisions of Articles 6 of Chapter 4 of Division 7 of the Public Utilities Code, commencing with Section 16575 of said Code, as in effect on the Closing Date or as thereafter amended in accordance with its terms.

“Bonds” means Fallbrook Public Utility District 2024 Water Revenue Bonds issued and at any time Outstanding hereunder.

“Bond Year” means the period beginning on the Closing Date and ending on September 1, 2024 and thereafter the period beginning on each September 2 and ending on the following September 1.

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

“Certificate of the District” means a certificate in writing signed by the President of the Board of Directors of the District, the General Manager of the District or, the Assistant General Manager/Chief Financial Officer of the District.

“Closing Date” means [\_\_\_\_\_], 2024, being the date of delivery of the Bonds to the Original Purchaser.

“Continuing Disclosure Certificate” means the Continuing Disclosure Certificate described in Section 5.10.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the District relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to printing expenses, rating agency fees, filing and recording fees, initial fees, expenses and charges of the Trustee and its counsel, fees, charges and disbursements of attorneys, financial advisor, underwriter, accounting firms, consultants and other professionals, and any other cost, charge or fee in connection with the original issuance of the Bonds, including bond insurance premium.

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

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

- (a) the aggregate amount of principal of and interest on the Outstanding Bonds coming due and payable in such Fiscal Year;
- (b) the principal amount of all outstanding Parity Debt, if any, coming due and payable by their terms in such Fiscal Year; and
- (c) as to any such Bonds or Parity Debt bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be the greatest of (a) the actual interest rate on such Bonds or Parity Debt on the date of calculation, or if the indebtedness is not yet outstanding, the initial interest rate (if established and binding), (b) if the Bonds or Parity Debt have been outstanding for at least twelve months, the average rate over the twelve calendar months immediately preceding the date of calculation, and (c) (i) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the most recently published Bond Buyer “Revenue Bond Index” (or comparable index if no longer published) plus 50 basis points, or (ii) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities plus 50 basis points; provided, however, that for purposes of any portion of Sections 3.04 (Parity Debt) and 5.07 (Amount of Rates and Charges) of this

Indenture, measuring actual debt service coverage during a test period, variable rate indebtedness shall be deemed to bear interest at the actual rate per annum applicable during the test period.[]

“Debt Service Fund” means the fund by that name established and held by the Trustee under Section 4.02(b)(ii).

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

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

“District” means the Fallbrook Public Utility District, a public utility district duly organized and existing under the Constitution and laws of the State of California, and any successor thereto.

“DTC” means The Depository Trust Company, and its successors and assigns. “Event of Default” means any of the events described in Section 8.01.

“Federal Securities” means: (a) non-callable direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America; (b) Parity Debt fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America; or (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America.

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

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

“Gross Revenues” means: (1) all gross charges (including surcharges, if any) received for, and all other gross income and receipts derived by the District from, the ownership and operation of the Water System or otherwise arising from the Water System, including but not limited to (a) connection charges, (b) rebates or incentives paid to the District as a result of installed renewable energy generation projects or energy efficiency measures that benefit the operation of the Water System, and c) investment earnings on amounts held in the Water Fund or in any other fund established with respect to the Water System; and (2) Tax Revenues. Gross Revenues does not include (i)



refundable deposits made to establish credit, and (ii) the proceeds of any special assessments or special taxes levied upon real property within any improvement district served by the District for the purpose of paying special assessment bonds or special tax obligations of the District relating to the Water System.

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

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

[“Insurer” means (i) \_\_\_\_\_ as provider of the Reserve Policy, and (ii) the provider of a municipal bond or financial guaranty insurance policy with respect to the Bonds or with respect to an issue of bonds the proceeds of which are used to purchase the Bonds.]

“Interest Payment Date” means March 1 and September 1 in each year, commencing September 1, 2024, and continuing so long as any Bonds remain Outstanding.

[“Maximum Annual Debt Service” means the largest Annual Debt Service for any Bond Year after the calculation is made through the final maturity date of any Outstanding Bonds.]

“Moody’s” means Moody’s Investors Services, and its successors and assigns.

“Net Proceeds” means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys’ fees) incurred in the collection of such proceeds.

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

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

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

office or agency of the Trustee at which, at any particular time, its corporate trust agency business is conducted.

“Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid by the District to maintain and operate the Water System, including but not limited to (a) costs of treating water, (b) costs of electricity and other forms of energy supplied to the Water System, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water System in good repair and working order, and (d) the reasonable administrative costs of the District attributable to the operation and maintenance of the Water System. Operation and Maintenance Costs does not include (i) Debt Service payable on obligations incurred by the District with respect to the Water System, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

“Original Purchaser” means [\_\_\_\_\_], as the original purchaser of the Bonds upon their delivery by the Trustee on the Closing Date.

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

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

“Parity Debt” means (a) the State Revolving Fund construction loan and grant between the State Department of Public Health and the District, dated June 21, 2010 (“2010 SRF Loan”) and a Construction Installment Sale Agreement No. SWRCB0000000000D 180202000, by and between the California State Water Resources Control Board and the District, dated August 28, 2019, and amended on January 31, 2020 and \_\_\_\_\_, 20\_\_ (“2019 SRF Loan”). and (b) all bonds, notes, loan agreements, installment sale agreements, leases or other obligations of the District payable from and secured by a pledge of and lien on any of the Net Revenues issued or incurred on a parity with the Bonds under Section 3.04 or 3.05.

“Parity Debt Documents” means documents related to the 2010 SRF Loan and 2019 SRF Loan such as indentures, installment purchase agreements and other loan documents entered in compliance with Section 3.04 hereof.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein (the Trustee is entitled to conclusively rely on a Request of the District directing

investment in such Permitted Investment as a certification by the District to the Trustee that such Permitted Investment is a legal investment under the laws of the State), but only to the extent that the same are acquired at fair market value:

- (a) direct obligations of the United States of America (including Parity Debt issued or held in book-entry form on the books of the Department of the Treasury of the United States of America or any Federal Reserve Bank and CATS and TIGRS) or obligations the timely payment of the principal of and interest on which are unconditionally guaranteed by the United States of America;
- (b) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies, provided that such obligations are backed by the full faith and credit of the United States of America (stripped securities shall constitute Eligible Securities only if they have been stripped by the agency itself); U.S. Export-Import Bank, Farmers Home Administration, Federal Financing Bank, General Services Administration, U.S. Maritime Administration, U.S. Department of Housing and Urban Development, Government National Mortgage Association, and Federal Housing Administration obligations;
- (c) bonds, debentures, notes, or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities shall constitute Eligible Securities only if they have been stripped by the agency itself): Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA"), Student Loan Marketing Association, Resolution Funding Corporation or Farm Credit System;
- (d) bonds or notes issued by any state or municipality, or political subdivisions thereof, which are rated by S&P, Fitch or Moody's in one of the three highest rating (without regard to qualifier) categories assigned by such agencies;
- (e) repurchase agreements with a primary dealer on the reporting dealer list of the Federal Reserve, or any bank, or any other financial institution, which, in any case, has capital of not less than \$500 million and which has, or is guaranteed by an entity which has, long-term ratings, at the time of purchase, in the "A" category (without regard to modifiers) or better by at least two of the following rating agencies: S&P, and Moody's, and or Fitch; and which has a minimum short-term rating of no less than "A-1" or equivalent (A-1/P-1/F1), at the time of purchase, by at least two of the following rating agencies: S&P, Moody's, or Fitch, provided that the Trustee or third party acting solely as agent for the Trustee has possession of the collateral and the collateral is valued weekly with deficiencies to be cured within two (2) days and the market value of the collateral is maintained at an amount equal to at least 104% (or, if the collateral consists of obligations of FHLMC or FNMA or States or Municipalities, 105%) of the amount of

cash transferred by the Trustee to the repurchase agreement provider under the repurchase agreement plus interest, (iv) failure to maintain the requisite collateral levels will require the Trustee to liquidate the collateral, and (v) there shall have been delivered to the Trustee and the District an Opinion of Counsel as to the validity, legality and enforceability of the repurchase agreement;

- (f) (f) investment agreements, including guaranteed investment contracts ("GICs") with providers in one of the two highest rating categories (without regard to qualifier) of Moody's and S&P
- (g) money market funds registered under the Federal Investment Company Act of 1940, and having a rating, at the time of purchase, by S&P of "AAAm-G", "AAA-m", or "AA-m" and if rated by Moody's rated "Aaa", "Aa1" or "Aa2", 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 fees from funds for services rendered, (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) certificates of deposit or similar bank deposit products secured at all times by collateral described in (a) and/or (b) above, issued by commercial banks, savings and loan associations or mutual savings banks relating to collateral held by a third party, and in which collateral the Trustee on behalf of the Bondholders has a perfected first security interest;
- (i) certificates of deposit, savings accounts, deposit accounts or money market deposits that are fully insured by FDIC, including BIF and SAIF;
- (j) federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating, at the time of purchase, of "Prime-1" or "A-3" or better by Moody's and "A-1" or "A" or better by S&P;
- (k) shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State as it may be amended;
- (l) the State of California's Pooled Money Investment Account;
- (m) the State of California's Local Agency Investment Fund; and

- (n) any other investments which meet the criteria established by applicable published investment guidelines issued by each rating agency then rating the Bonds..

“Project” capital improvements to the Water System, including but not limited to [\_\_\_\_\_].

“Project Fund” means the fund by that name established and held by the Trustee under Section 3.03.

“Qualified Reserve Fund Credit Instrument” means (i) the Reserve Policy or (ii) an irrevocable standby or direct-pay letter of credit or Reserve Policy issued by a commercial bank or insurance company and deposited with the Trustee pursuant to Section 4.04, provided that all of the following requirements are met by the District at the time of delivery thereof to the Trustee: (a) the long-term credit rating of such bank or insurance company is “A” (without regard to modifier) or higher; (b) such letter of credit or Reserve Policy has a term of at least twelve (12) months; (c) such letter of credit or Reserve Policy has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released pursuant to Section 4.04; (d) the Trustee is authorized pursuant to the terms of such letter of credit or Reserve Policy to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account and the Principal Account; and (e) prior written notice is given pursuant to the Indenture before the effective date of any such Qualified Reserve Fund Credit Instrument.

“Rate Stabilization Fund” means the fund by that name that is established and held by the District pursuant to Section 4.05 hereof..

“Record Date” means, with respect to any Interest Payment Date, the 15th calendar day of the month preceding such Interest Payment Date whether or not such day is a Business Day.

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

“Request of the District” means a request in writing signed by the President of the Board of Directors of the District, the General Manager of the District, the Assistant General Manager & Chief Financial Officer of the District or any other officer of the District duly authorized by the Board of Directors for that purpose.

[“Reserve Fund” means the account by that name established and held by the Trustee pursuant to Section 4.04 hereof. ]

[“Reserve Policy” means the municipal bond debt service reserve insurance policy issued by the Insurer as Policy Number \_\_\_\_\_ in the stated amount of \$ \_\_\_\_\_, deposited into the Reserve Fund relating to the Bonds.]

["Reserve Requirement"] means, with respect to the Bonds, as of any date of calculation, the least of (i) ten percent (10%) of the original par amount of the Bonds, (ii) Maximum Annual Debt Service with respect to the Bonds, or (iii) 125% of average Annual Debt Service on the Bonds; provided, further that the district may meet all or a portion of the Reserve Requirement by depositing a Qualified Reserve Fund Credit Instrument meeting the requirements of Section 4.04 hereof.]

"S&P" means S&P Global Ratings, a division of Standard & Poor's Financial Services LLC, and its successors and assigns.

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

"Supplemental Indenture" means any indenture, agreement, resolution or other instrument hereafter duly adopted or executed in accordance with Section 7.01.

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

"Tax Revenues" means the amount of property tax revenues (as defined in Section 95 of the Revenue and Taxation Code of the State of California) apportioned, allocated and paid by the County Tax Collector to the District that are allocable to the Water Fund.

"Trustee" means U.S. Bank National Association, as Trustee hereunder, or any successor thereto appointed as Trustee under Article VI.

"Water Fund" means the fund or funds established and held by the District with respect to the Water System for the deposit of Gross Revenues.

"Water System" means all properties and assets, real and personal, tangible and intangible, of the District, now or hereafter existing, used or pertaining to the production, transmission, distribution and sale of water and all additions, extensions, expansions, improvements and betterments thereto, and equipping thereof; provided, however, that to the extent the District is not the sole owner of an asset or property, only the District's ownership interest in such asset or property shall be considered to be part of the Water System.

**APPENDIX B**

**FORM OF BOND**

No. \_\_\_\_\_

\$ \_\_\_\_\_

**FALLBROOK PUBLIC UTILITY DISTRICT  
2024 WATER REVENUE BOND,**

<u>RATE OF INTEREST</u>	<u>MATURITY DATE</u>	<u>ORIGINAL ISSUE DATE</u>	<u>CUSIP</u>
_____ %			

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: \_\_\_\_\_ DOLLARS

The Fallbrook Public Utility District, a public utility district duly organized and existing under the Constitution and laws of the State of California (the "District"), for value received, hereby promises to pay (but only out of the Net Revenues and other assets pledged therefor as hereinafter mentioned) to the Registered Owner stated above, or registered assigns, on the Maturity Date stated above, the Principal Amount stated above, in lawful money of the United States of America; and to pay interest thereon in like lawful money from the Interest Payment Date next preceding the date of authentication of this Bond (unless this Bond is authenticated as of a day during the period commencing after the 15th day of the month preceding an Interest Payment Date and ending on or before such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless this Bond is authenticated on or before \_\_\_\_\_, 2024, in which event it shall bear interest from the Issue Date stated above) until payment of such principal sum shall be discharged as provided in the Indenture hereinafter mentioned, at the Interest Rate per annum stated above, payable semiannually on each March 1 and September 1, commencing September 1, 2024 (each, an "Interest Payment Date").

The principal hereof is payable by check at the Office (as defined in the Indenture referred to below) of U.S. Bank National Association (together with any successor trustee under the Indenture, the "Trustee"). Interest hereon is payable by check of the Trustee mailed on each Interest Payment Date to the Registered Owner as of the 15th day of the month preceding each Interest Payment Date (except with respect to payment of defaulted interest as provided in the Indenture hereinafter referred to) at the address shown on the registration books maintained by the Trustee. Payment of interest will be made by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more who shall furnish written wire instructions to the Trustee before the 15th day of the month preceding the applicable Interest Payment Date.

This Bond is one of a duly authorized issue of bonds of the District designated as its "Fallbrook Public Utility District 2024 Water Revenue Bonds" (the "Bonds"), in the aggregate principal amount of \$\_\_\_\_\_ authorized under Articles 6 of Chapter 4 of Division 7 of the Public Utilities Code, commencing with Section 16575 of said Code (the "Bond Law"), and issued under an Indenture of Trust, dated as of \_\_\_\_\_ 1, 2024 (the "Indenture"), between the District and the Trustee. The Bonds have been issued for the purpose of financing capital improvements of the District's water system (the "Water System").

Reference is hereby made to the Indenture (a copy of which is on file at said Office of the Trustee) and all indentures supplemental thereto and to the Bond Law for a description of the rights thereunder of the owners of the Bonds, of the nature and extent of the security, of the rights, duties and immunities of the Trustee and of the rights and obligations of the District thereunder. The Registered Owner of this Bond, by acceptance hereof, assents and agrees to all the provisions of the Indenture.

The Bonds and the interest thereon are payable from Net Revenues (as such term is defined in the Indenture) of the Water System, and are secured by a pledge of, and lien on, said Net Revenues and amounts held in certain funds and accounts established under the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The District has the right under the Indenture to issue additional obligations on a parity with the Bonds, subject to the specific conditions set forth in the Indenture. The Bonds are special obligations of the District and are not a lien or charge upon the funds or property of the District, except to the extent of the aforesaid pledge and lien.

The Bonds maturing on or before September 1, 20\_\_, are not subject to optional redemption prior to their respective stated maturity dates. The Bonds maturing on or after September 1, 20\_\_, are subject to redemption in whole, or in part among maturities on such basis as the District may designate and by lot within a maturity, at the option of the District, on any date on or after September 1, 20\_\_, from any available source of funds, at a redemption price of the principal amount of the Bonds to be redeemed plus accrued interest to the date of redemption, without premium.

The Outstanding Bonds maturing on September 1, 20\_\_ and September 1, 20\_\_ are subject to mandatory sinking fund redemption, in part, on September 1, 20\_\_, and September 1, 20\_\_ respectively, and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date of redemption, without premium, and from sinking payments in the manner and in the amounts described in the Indenture.

The Bonds are subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date, as determined by the District, from Net Proceeds (as such term is defined in the Indenture), upon the terms and conditions of, and as provided for in the Indenture, at a redemption price equal to the principal amount



of the Bonds to be redeemed, without premium, plus accrued interest thereon to the date fixed for redemption.

Unless waived by any Owner of Bonds to be redeemed, notice of any redemption of Bonds shall be given, at the expense of the District, by the Trustee by mailing a copy of a redemption notice by first class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Owner of the Bond or Bonds to be redeemed at the address shown on the Bond Registration Books; provided, that neither the failure to receive such notice nor any immaterial defect in any notice shall affect the sufficiency of the proceedings for the redemption of the Bonds.

If this Bond is called for redemption and payment is duly provided therefor as specified in the Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption.

The Bonds are issuable as fully registered Bonds in denominations of \$5,000 and any integral multiple thereof. Subject to the limitations provided in the Indenture, Bonds may be exchanged, at said Office of the Trustee, for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity.

This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at said office of the Trustee, but only in the manner, subject to the limitations provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer, a new Bond or Bonds, of authorized denomination or denominations, of the same maturity and for the same aggregate principal amount, will be issued to the transferee in exchange herefor. The District and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the District and the Trustee shall not be affected by any notice to the contrary.

The Indenture and the rights and obligations of the District and of the owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time in the manner, to the extent, and upon the terms provided in the Indenture; provided that no such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the District to pay the principal or interest at the time and place and at the rate and in the currency provided therein of any Bond, without the written consent of the owner of such Bond, (b) permit the creation by the District of any mortgage, pledge or lien upon the Gross Revenues or Net Revenues superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as expressly permitted by the Indenture), (c) reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (d) without its written consent thereto, modify any of the rights or obligations of the Trustee, all as more fully set forth in the Indenture.

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York Corporation ("DTC"), to the Trustee for registration or transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and

any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

It is hereby certified and recited that any and all things, conditions and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by the Bond Law, and by the constitution and laws of the State of California, and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any limit prescribed by the Bond Law and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

This Bond is not entitled to any benefit under the Indenture, or is not valid or obligatory for any purpose, until the certificate of authentication hereon endorsed has been signed by the Trustee.

IN WITNESS WHEREOF, Fallbrook Public Utility District has caused this Bond to be executed in its name and on its behalf by the facsimile signature of the General Manager of the District and attested to by the facsimile signature of the Secretary of the District, all as of the Issue Date stated above.

FALLBROOK PUBLIC UTILITY DISTRICT

By: \_\_\_\_\_  
General Manager

ATTEST:

\_\_\_\_\_  
Secretary

**CERTIFICATE OF AUTHENTICATION**

This is one of the Bonds described in the within-mentioned Indenture and registered on the Registration Books.

Dated: \_\_\_\_\_, 2024

U.S. BANK TRUST COMPANY,  
NATIONAL ASSOCIATION, as Trustee

By: \_\_\_\_\_  
Authorized Signatory

**ASSIGNMENT**

For value received the undersigned do(es) hereby sell, assign and transfer unto \_\_\_\_\_

\_\_\_\_\_

(Name, Address and Tax Identification or Social Security Number of Assignee)

the within Bond and do(es) hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the Trustee, with full power of substitution in the premises.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Note: Signature guarantee shall be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other guarantee program acceptable to the Trustee.

\_\_\_\_\_  
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.

**APPENDIX C**

**FORM OF REQUISITION (PROJECT FUND)**

U.S. Bank National Association  
One Embarcadero Center, Suite 2100  
San Francisco, CA 94111  
Attn: Global Corporate Trust

Re: Fallbrook Public Utility District 2024 Water Revenue Bonds

Fallbrook Public Utility District (the "Borrower") hereby requests U.S. Bank National Association, as Trustee (the "Trustee"), under that certain Bond Indenture, dated as of \_\_\_\_\_ 1, 2024 (the "Indenture"), between the Borrower and the Trustee, relating to the above-captioned Bonds to pay to the persons listed on Schedule I attached hereto the amounts shown for the purposes and in the detail indicated on Schedule I from the Project Fund established pursuant to the Indenture.

The Borrower hereby certifies that: (i) each item in the amount set forth on Schedule I is a proper charge against the Project Fund and has not previously been disbursed by the Trustee from amounts in the Project Fund, (ii) all conditions precedent set forth in the Indenture with respect to this disbursement have been satisfied, (iii) the amount of such disbursement is for a cost of the Project (as defined in the Indenture).

Dated: \_\_\_\_\_, \_\_\_\_\_.

FALLBROOK PUBLIC UTILITY DISTRICT

By: \_\_\_\_\_  
Authorized Representative

SCHEDULE I

## Attachment C

**PRELIMINARY OFFICIAL STATEMENT DATED \_\_\_\_\_, 2024**

**NEW ISSUE-FULL BOOK-ENTRY**

**RATING: S&P (Insured): “\_\_\_”**  
**S&P (Underlying): “\_\_\_”**  
**(See “RATINGS” herein.)**

*In the opinion of Best Best & Krieger LLP, Riverside, California (“Bond Counsel”), subject, however, to certain qualifications described in this Official Statement, under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, the interest on the Bonds is excluded from gross income for federal income tax purposes, and interest on the Bonds is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, for tax years beginning after December 31, 2022, interest on the Bonds is taken into account in determining the annual adjusted financial statement income of certain corporations for the purpose of computing the alternative minimum tax imposed on certain corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income tax. See “TAX EXEMPTION” herein.*

\$ \_\_\_\_\_\*

**FALLBROOK PUBLIC UTILITY DISTRICT  
2024 Water Revenue Bonds**

**Dated: Date of Issuance**

**Due: September 1, as shown on inside front cover**

The 2024 Water Revenue Bonds (the “Bonds”) are being issued by the Fallbrook Public Utility District (the “District”) to (i) finance capital improvements for the District’s water system, (ii) pay the costs of issuing the Bonds, and (iii) finance a reserve fund. See “PLAN OF FINANCE.”

Interest on the Bonds will be payable on March 1 and September 1 of each year, commencing [September 1, 2024]. Payments of the principal of, premium, if any, and interest on the Bonds will be made directly to The Depository Trust Company (“DTC”), or its nominee, Cede & Co., by U.S. Bank National Association, as trustee (the “Trustee”), so long as DTC or Cede & Co. is the registered owner of the Bonds.

The Bonds are being issued as fully registered bonds, registered in the name of Cede & Co. as nominee of DTC, and will be available to ultimate purchasers in the denomination of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Ultimate purchasers of Bonds will not receive physical certificates representing their interest in the Bonds. So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the owners shall mean Cede & Co., and shall not mean the ultimate purchasers of the Bonds. Disbursements of payments to DTC’s Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC’s Participants and Indirect Participants, as more fully described herein. See APPENDIX D – BOOK-ENTRY SYSTEM.

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

The Bonds are special limited obligations of the District, secured by and payable from a first pledge of and lien on the Net Revenues (defined herein) of the Water System (defined herein) and from amounts on deposit in certain funds and accounts established under the Indenture (defined herein). The Bonds are not a debt, liability or obligation of the State of California or any of its political subdivisions other than the District as described herein. [The District is/is not funding a debt service reserve fund for the Bonds.] See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

The District has outstanding debt that is payable from the Net Revenues of the Water System on a parity basis with the Bonds and may enter into additional parity obligations in the future, subject to the conditions set forth in the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Parity Debt.”

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

THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM REVENUES AND OTHER FUNDS HELD UNDER THE INDENTURE. THE BONDS ARE NOT A DEBT, OBLIGATION OR LIABILITY OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS, NOR DO THEY CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF ANY OF THE FOREGOING (INCLUDING THE DISTRICT) IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE DISTRICT’S OBLIGATION TO PAY DEBT SERVICE ON THE BONDS IS AN OBLIGATION PAYABLE SOLELY FROM THE DISTRICT’S WATER FUND. THE OBLIGATION OF THE DISTRICT TO PAY DEBT SERVICE DOES NOT CONSTITUTE A DEBT OF THE DISTRICT 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.

[Bids for the purchase of the Bonds will be received by the District on \_\_\_\_\_, 2024, electronically only, through the I-Deal LLC BiDCOMP™/PARITY® system, until 9:00 A.M. Pacific Standard time. The Bonds will be sold pursuant to the terms of sale set forth in the Official Notice of Sale, dated \_\_\_\_\_, 2024.]

The Bonds are offered when, as and if issued subject to the approval, as to their validity, by Best Best & Krieger LLP, Riverside, California, Bond Counsel to the District, and certain other conditions. Best Best & Krieger LLP is also serving as Disclosure Counsel to the District and for [\_\_\_\_\_, \_\_\_\_\_, California, the Underwriter by its counsel, \_\_\_\_\_, \_\_\_\_\_, California]. Certain legal matters will be passed upon for the District by Best Best & Krieger LLP, as general counsel to the District. It is expected that the Bonds will be available for delivery in book-entry form through the facilities of DTC on or about \_\_\_\_\_, 2024.

[UNDERWRITER LOGO]

Dated: \_\_\_\_\_, 2024

\* Preliminary, subject to change.

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 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 a 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 prior to registration or qualification under the securities laws of such jurisdiction.



**MATURITY SCHEDULE**

\$ \_\_\_\_\_\*  
**FALLBROOK PUBLIC UTILITY DISTRICT**  
**2024 Water Revenue Bonds,**

<b><u>Maturity Date</u></b> <b><u>(September 1)</u></b>	<b><u>Principal</u></b> <b><u>Amount</u></b>	<b><u>Interest</u></b> <b><u>Rate</u></b>	<b><u>Yield</u></b>	<b><u>Price</u></b>	<b>CUSIP<sup>†</sup></b> <b>(Base: _____)</b>
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\_\_\_\_\_  
(C) Priced to the optional redemption date of September 1, 20\_\_, at par.

\_\_\_\_\_  
\* Preliminary, subject to change.

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## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

**No Offering May Be Made Except by this Official Statement.** No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations with respect to the Bonds other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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

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

**Preparation of this Official Statement.** The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement, in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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

**Stabilization of and Changes to Offering Prices.** The Underwriters may over allot or take other steps that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. If commenced, the Underwriter may discontinue such market stabilization at any time. The Underwriter may offer and sell the Bonds to certain dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page of this Official Statement, and those public offering prices may be changed from time to time by the Underwriter.

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

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

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

**Internet Site.** The District maintains an internet site; however, none of the information contained on that internet site is incorporated by reference in this Official Statement.

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**FALLBROOK PUBLIC UTILITY DISTRICT  
(SAN DIEGO COUNTY, CALIFORNIA)**

**Board of Directors**

Jennifer DeMeo, President and Director of Subdistrict No. 3  
Don McDougal, Vice President and Director of Subdistrict No. 4  
Dave Baxter, Director of Subdistrict No. 1  
Ken Endter, President and Director of Subdistrict No. 2  
Charley Wolk, Director of Subdistrict No. 5

**District Staff**

Jack Bebee, General Manager  
David Shank, Assistant General Manager & Chief Financial Officer  
Lauren Eckert, Secretary of the Board of Directors  
Paula C. P. de Sousa, Best Best & Krieger LLP, General Counsel

**SPECIAL SERVICES**

**Municipal Advisor**  
Wulff, Hansen & Co.  
*San Rafael, California*

**Bond Counsel and Disclosure Counsel**

Best Best & Krieger LLP  
*Riverside, California*

**Trustee**  
U.S. Bank National Association  
*Los Angeles, California*

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LOCATION MAP

AERIAL PHOTO



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## OFFICIAL STATEMENT

\$ \_\_\_\_\_  
**FALLBROOK PUBLIC UTILITY DISTRICT**  
**2024 Water Revenue Bonds**

### INTRODUCTION

#### **General**

This Official Statement, including the cover page and appendices hereto, sets forth certain information in connection with the sale by the Fallbrook Public Utility District (the “District”) of its 2024 Water Revenue Bonds (“Bonds”). This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents described herein.

All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” or, if not defined therein, shall have the meanings assigned to such terms in the Indenture.

#### **Authority for Issuance and Application of Proceeds**

The Bonds are being issued under the provisions of Articles 6 of Chapter 4 of Division 7 of the Public Utilities Code, commencing with Section 16575 of said Code (the “Bond Law”) and an Indenture of Trust, dated as of \_\_\_\_\_ 1, 2024 (the “Indenture”), between the District and U.S. Bank National Association, as trustee (the “Trustee”). The Bonds are being issued to finance capital improvements of the District’s Water System (defined herein), (ii) pay the costs of issuing the Bonds, and (iii) fund a reserve fund. See “PLAN OF FINANCE.”

#### **The District**

The District provides the following services through three separate utility enterprises: (i) potable water service through its Water System, (ii) wastewater service through its wastewater system, and (iii) recycled water service through its recycled water system.

The District was originally formed on June 5, 1922 to provide potable water to customers in the unincorporated community of Fallbrook, which is located in San Diego County (the “County”) approximately 55 miles north of the City of San Diego and 7 miles northeast of the Marine Corps Base Camp Pendleton. [Over time, annexations have expanded the District’s potable water service area from approximately 500 acres to 28,000 acres (44 square miles) at present.]

The District’s water distribution system is comprised of 270 miles of pipeline, 6,800 valves, an ultraviolet disinfection water treatment plant, nine steel reservoirs, a 300-million-gallon treated water reservoir, five pump stations and plans for a groundwater treatment plant. District staff operate the Water System, and conduct all system maintenance and repairs. The District has nearly completed an Advanced Metering Infrastructure system upgrade that will enable real-time meter reading and provide customers with real-time water use. The District has 4 connections to the imported water system, three of the four are directly connected to Metropolitan Water District of Southern California owned pipelines and the fourth, which is currently not in use, is connected to San Diego County Water Authority pipeline. See “THE WATER SYSTEM.”

For additional information regarding the District, the unincorporated area of Fallbrook and the County, see “THE DISTRICT” and “APPENDIX A – General Information about Fallbrook and San Diego County.”

## **The Bonds**

The Bonds will be dated their date of issuance and delivery, will bear interest at the rates per annum set forth on the inside cover page hereof payable semiannually on March 1 and September 1, commencing [September 1, 2024] (each, an “Interest Payment Date”), and will mature on the dates and in the amounts set forth on the inside cover page hereof. The Bonds will be delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company (“DTC”), and will be available to ultimate purchasers (“Beneficial Owners”) in the denomination of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Beneficial Owners will not be entitled to receive delivery of bonds representing their ownership interest in the Bonds. See “THE BONDS.”

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

## **Security for the Bonds and Parity Debt**

The Bonds are secured by the Net Revenues of the Water System, which under the Indenture are pledged for payment of the Bonds. The District has outstanding debt that is payable from the Net Revenues of the Water System on a parity basis with the Bonds and the District may enter into additional Party Debt in the future, subject to the conditions set forth in the Indenture.

## **[No Reserve Fund**

The District will not fund a debt service reserve fund for the Bonds.]

## **Special Obligations**

The Bonds are special obligations of the District, secured by and payable from the Net Revenues of the Water System, and from amounts on deposit in certain funds and accounts established under the Indenture. Revenues of the District’s recycled water system may also be used to pay a portion of the Bonds, however such revenues are not pledged for payment of the Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.” The Bonds are not a debt, liability or obligation of the State or any of its political subdivisions other than the District, as described herein.

## **Risk Factors**

Investment in the Bonds is not suitable for all investors. Investors are directed to the heading “RISK FACTORS” for a non-exclusive list of certain risks that may materially adversely impact the District and the Bonds.

## **Further Information**

The summaries and references of the Indenture and other documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to the Indenture and each document, statute, report or instrument. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” for a summary of certain terms of the Indenture not summarized in the main body of this Official Statement.

## **THE BONDS**

### **General**

The Bonds will be dated their date of issuance and delivery, will bear interest at the rates per annum set forth on the inside cover page hereof payable on each Interest Payment Date and will mature on the dates and in the amounts set forth on the inside cover page hereof. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof, so long as no Bond may have more than one maturity date. The Bonds will be issued

only as one fully registered Bond for each maturity, in the name of Cede & Co., as nominee for DTC, as registered owner of all Bonds. See APPENDIX D – “BOOK ENTRY SYSTEM.” Ownership may be changed only upon the registration books maintained by the Trustee as provided in the Indenture.

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

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

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

## **Redemption**

### Optional Redemption.

The maturing on or after September 1, 20\_\_, are subject to redemption in whole, or in part among maturities on such basis as the District may designate and by lot within a maturity, at the option of the District, on any date on or after September 1, 20\_\_, from any available source of funds, at a redemption price of the principal amount of the Bonds to be redeemed plus accrued interest to the date of redemption, without premium.

### Mandatory Sinking Fund Redemption.

The Outstanding Bonds maturing on September 1, 20\_\_ and September 1, 20\_\_ are subject to mandatory sinking fund redemption, in part, on September 1, 20\_\_, and September 1, 20\_\_ respectively, and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date of redemption, without premium, and from sinking payments as follows:

#### Bonds Maturing on September 1, 20\_\_

Redemption Date  
(September 1)

Sinking Payment

(maturity)

Bonds Maturing on September 1, 20

Redemption Date  
(September 1)

Sinking Payment

(maturity)

Extraordinary Redemption from Net Proceeds of Insurance or Condemnation. The Bonds shall be subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date, as determined by the District, 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 of the Bonds to be redeemed, without premium, plus accrued interest thereon to the date fixed for redemption.

Notice of Redemption. Unless waived by any Owner of Bonds to be redeemed, notice of any redemption of Bonds will be given, at the expense of the District, by the Trustee, by mailing a copy of a redemption notice by first class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Owner of the Bond or Bonds to be redeemed at the address shown on the Bond Registration Books; provided, that neither the failure to receive such notice nor any immaterial defect in any notice shall affect the sufficiency of the proceedings for the redemption of the Bonds.

All notices of redemption will be dated and will state: (i) the redemption date, (ii) the redemption price of the Bonds being redeemed (the "Redemption Price"), (iii) if fewer than all Outstanding Bonds are to be redeemed, including (A) the CUSIP numbers of all Bonds being redeemed; (B) the stated interest rate with respect to each Bond being redeemed; (C) the maturity date of each Bond being redeemed; and (D) any other descriptive information needed to identify accurately the Bonds being redeemed, (iv) that on the redemption date the Redemption Price will become due and payable with respect to each such Bond or portion thereof called for redemption, and that interest with respect thereto shall cease to accrue from and after said date, and (v) the place or places where such Bonds are to be surrendered for payment of the Redemption Price, which places of payment may include the Office of the Trustee.

Rescission of Notice of Redemption. The District has the right to rescind any notice of the optional redemption of Bonds by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture. The District and the Trustee have no liability to the Bond Owners or any other party related to or arising from such rescission of notice of redemption. The Trustee will mail notice of such rescission of notice of redemption in the same manner as the original notice of redemption was sent.

Consequences of Notice. Notice of redemption having been given as required by the Indenture, the Bonds or portions of Bonds so to be redeemed will, on the redemption date, become due and payable at the Redemption Price, and from and after such date (unless the District defaults in the payment of the Redemption Price) such Bonds or portions of Bonds will cease to have interest accrue thereon. Upon surrender of Bonds for redemption in accordance with a redemption notice, the Bonds will be paid by the Trustee at the Redemption Price. Installments of interest due on or prior to the redemption date will be payable as provided in the Indenture. Upon surrender for any partial redemption of any Bond, there will be prepared for the Owner a new Bond or Bonds of the same maturity in the amount of the unredeemed principal. All Bonds which have been redeemed will be cancelled and destroyed by the Trustee and will not be redelivered.

Partial Redemption of Bonds. In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond redeemed in part only, the District will execute and the Trustee will authenticate and

deliver to the Owner, at the expense of the District, a new Bond or Bonds, of the same series and maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

Manner of Redemption. Whenever any Bonds are to be selected for redemption, the Trustee will determine, by lot, the numbers of the Bonds to be redeemed, and will notify the District of its determination.

**Cost of Issuance Fund**

There Indenture establishes a separate fund to be known as the “Costs of Issuance Fund”, to be held by the Trustee in trust. The Trustee shall disburse moneys in the Costs of Issuance Fund from time to time to pay Costs of Issuance upon submission of a Request of the District. Each such Request of the District 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. After the Closing Date, the Trustee shall transfer any amounts remaining in the Costs of Issuance Fund to the Debt Service Fund to be applied to pay a portion of the interest next coming due and payable on the Bonds.

**Project Fund**

The Indenture establishes a separate fund to be known as the “Project Fund”, to be held by the Trustee in trust for the District. The Trustee shall disburse moneys in the Project Fund from time to time to pay Project costs (or to reimburse the District respectively, for payment of Project costs) upon receipt by the Trustee of a written requisition of an Authorized Representative. Upon the filing with the Trustee of a written certificate of an Authorized Representative stating that the Project has been completed or that all written requisitions intended to be filed have been filed, the Trustee shall withdraw all amounts then on deposit in the Project Fund and transfer such amounts to the Principal Fund.

**PLAN OF FINANCE**

**General**

Bond proceeds will be used to finance improvements for the Water System and (ii) pay the costs of issuing the Bonds.

**Estimated Sources and Uses of Funds**

The following sets forth the estimated sources and uses of funds related to the Bonds.

**Sources of Funds**

Principal Amount of Bonds  
Plus/minus Original Issue Premium/Discount  
TOTAL SOURCES \_\_\_\_\_

**Uses of Funds**

Costs of Issuance Fund<sup>(1)</sup>  
Project Fund  
[Reserve Fund]  
TOTAL USES \_\_\_\_\_

<sup>(1)</sup> Includes fees of bond and disclosure counsel fees, expenses and charges of the Trustee, printing costs, fees of the Municipal Advisor, Underwriter’s discount, and other costs of issuance.

## Debt Service Schedule

The following table shows, for each Fiscal Year ending June 30, the principal of and interest that is payable on the Bonds, assuming no optional or extraordinary redemptions. See “– General,” above.

<b><u>Period Ending (September 1)</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
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## SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

### Pledge of Net Revenues

The Bonds and any Parity Debt are secured by a first pledge and lien on Net Revenues. “Net Revenues” means, for any period, an amount equal to all of the Gross Revenues received during such period, minus the amount required to pay all Operation and Maintenance Costs becoming payable during such period. In addition, the Bonds are secured by a pledge of all of the moneys in the Debt Service Fund held by the Trustee under the Indenture, including all amounts derived from the investment of such moneys. So long as any of the Bonds are Outstanding, the Net Revenues and such moneys may not be used for any other purpose, except that out of the Net Revenues there may be apportioned such sums, for such purposes, as are expressly permitted by the Indenture.

“Gross Revenues” means: (1) all gross charges (including surcharges, if any) received for, and all other gross income and receipts derived by the District from, the ownership and operation of the Water System or otherwise arising from the Water System, including but not limited to (a) connection charges, (b) rebates or incentives paid to the District as a result of installed renewable energy generation projects or energy efficiency measures that benefit the operation of the Water System, and (c) investment earnings on amounts held in the Water Fund or in any other fund established with respect to the Water System; and (2) Tax Revenues. Gross Revenues does not include (i) refundable deposits made to establish credit, and (ii) the proceeds of any special assessments or special taxes levied upon real property within any improvement district served by the District for the purpose of paying special assessment bonds or special tax obligations of the District relating to the Water System.

“Tax Revenues” means the amount of property tax revenues (as defined in Section 95 of the Revenue and Taxation Code of the State of California) apportioned, allocated and paid by the County Tax Collector to the District.

“Water System” means all properties and assets, real and personal, tangible and intangible, of the District, now or hereafter existing, used or pertaining to the production, transmission, distribution and sale of water and all additions, extensions, expansions, improvements and betterments thereto, and equipping thereof; provided, however, that to the extent the District is not the sole owner of an asset or property, only the District’s ownership interest in such asset or property shall be considered to be part of the Water System.

“Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid by the District to maintain and operate the Water System, including but not limited to (a) costs of treating water, (b) costs of electricity and other forms of energy supplied to the Water System, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water System in good repair and working order, and (d) the reasonable administrative costs of the District attributable to the operation and maintenance of the Water System. Operation and Maintenance Costs does not include (i) Debt Service payable on Parity Debt incurred by the District with respect to the Water System, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

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

(a) the aggregate amount of principal of and interest on the Outstanding Bonds coming due and payable in such Fiscal Year;

(b) the principal amount of all outstanding Parity Debt, if any, coming due and payable by their terms in such Fiscal Year; and

(c) as to any such Bonds or Parity Debt bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be the greatest of (a) the actual interest rate on such Bonds or Parity Debt on the date of calculation, or if the indebtedness is not yet outstanding, the initial interest rate (if established and binding), (b) if the Bonds or Parity Debt have been outstanding for at least twelve months, the average rate over the twelve calendar months immediately preceding the date of calculation, and (c) (i) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the most recently published Bond Buyer “Revenue Bond Index” (or comparable index if no longer published) plus 50 basis points, or (ii) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities plus 50 basis points; provided, however, measuring actual debt service coverage during a test period, variable rate indebtedness shall be deemed to bear interest at the actual rate per annum applicable during the test period.

### **Special Obligation**

The Bonds and any Parity Debt are special obligations of the District, secured by and payable from Net Revenues. The Bonds are not a debt, liability or obligation of the State of California or any of its political subdivisions other than the District, as described herein.

### **[No Reserve Fund**

The District will not fund a debt service reserve fund for the Bonds.]

### **Water Fund; Flow of Funds under Indenture**

General. Promptly upon receipt, the District will deposit all Gross Revenues of the Water System into the Water Fund, and will apply all such amounts solely as set forth in the Indenture and as set forth in any other agreement, indenture of trust, resolution or other instrument authorizing the issuance of Parity Debt (each a “Parity Debt Document”). In addition to transfers which are required to be made for the repayment of any Parity Debt, the District will withdraw amounts on deposit in the Water Fund and apply such amounts at the times and for the purposes, and in the priority, as follows:

***Operation and Maintenance Costs.*** The District will apply amounts on deposit in the Water Fund to pay all Operation and Maintenance Costs when due.

***Debt Service Fund.*** At least 5 days prior to each Interest Payment Date, the District shall transfer all Net Revenues to the Trustee for the purpose of paying the Bonds and all Parity Debt of the Water System. Not later than the first Business Day preceding each date on which principal of or interest on the



Bonds becomes due and payable, the Trustee shall transfer from the Debt Service Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Debt Service Fund), the following amounts in the following order of priority, the requirements of each such account at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

***Interest Account.*** The Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all Bonds and Parity Debt of the Water System then Outstanding.

***Principal Account.*** The Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds and all Parity Debt of the Water System coming due and payable on such Interest Payment Date.

***Sinking Account.*** The Trustee shall deposit in the Sinking Account an amount equal to the aggregate principal amount of the Term Bonds required to be redeemed on such date, if any, pursuant to the Indenture.

**[Reserve Fund.** Replenishment of the Reserve Fund to the Reserve Requirement.]

***Other Lawful Uses.*** So long as no Event of Default has occurred and is continuing, the District may at any time use and apply moneys in the Water Fund for any one or more of the following purposes: (A) the payment of any subordinate obligations or any unsecured obligations; (B) the acquisition and construction of extensions and improvements to the Water System; (C) the payment or retirement of any of the Bonds or any other obligations of the District relating to the Water System; or (D) any other lawful purpose of the District.

**Application of Interest Account.** All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to this Indenture).

**Application of Principal Account.** All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates.

**Application of Sinking Account.** All moneys on deposit in the Sinking Account shall be used and withdrawn by the Trustee for the sole purpose of redeeming or purchasing Bonds (in lieu of redemption) pursuant to the Indenture.

### **Rate Stabilization Fund**

The District may establish a “Rate Stabilization Fund,” which it shall continue to hold and administer under the Indenture for the purpose of stabilizing the rates and charges imposed by the District with respect to the Water System. See “FINANCIAL MATTERS OF THE DISTRICT- Financial Policies.”

From time to time the District may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secure the Bonds and any Parity Debt, as the District may determine. The District may, but is not required to, withdraw from any amounts on deposit in the Rate Stabilization Fund and deposit such amounts in the Water Fund in any Fiscal Year for the purpose of paying Debt Service coming due and payable in such Fiscal Year. Amounts so transferred from the Rate Stabilization Fund to the Water Fund shall constitute Gross Revenues for such Fiscal Year (except as otherwise provided in the Indenture), and shall be applied for the purposes of the Water Fund. Amounts on deposit in the Rate Stabilization Fund will not be pledged to or otherwise secure the Bonds or any Parity Debt. The District has the right at any time to withdraw any or all amounts on deposit in the Rate Stabilization Fund and apply such amounts for any lawful purposes of the District relating to the Water System. The Rate Stabilization Fund is currently unfunded.

## **Rate Covenants; Collection of Rates and Charges**

The District covenants in the Indenture to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Fiscal Year which are at least sufficient, after making allowances for contingencies and errors in the estimates, to yield Gross Revenues sufficient to pay the following amounts:

- (a) All Operation and Maintenance Costs estimated by the District to become due and payable in such Fiscal Year;
- (b) The principal of and interest on the Bonds and any Parity Debt as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such principal and interest is payable from proceeds of Parity Debt deposited for such purpose; and
- (c) All payments required to meet any other Parity Debt of the District which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues during such Fiscal Year.

In addition, the District is required to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Fiscal Year which are sufficient to yield Net Revenues which are at least equal to 120% of the amount described in the preceding clause (b) for such Fiscal Year. For purposes of this covenant, the amount of Net Revenues for a Fiscal Year will be computed on the basis that (i) any transfers from the Rate Stabilization Fund into the Water Fund in such Fiscal Year are included in the calculation of Net Revenues, and (ii) any transfers from the Water Fund into the Rate Stabilization Fund in such Fiscal Year are deducted from the amount of Net Revenues to the extent such deposits are made from Gross Revenues received by the District during that Fiscal Year.

## **Insurance; Net Proceeds**

The District will at all times maintain with responsible insurers all such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Water System. All amounts collected from insurance against accident to or destruction of any portion of the Water System constitute Gross Revenues and must be used to repair or rebuild such damaged or destroyed portion of the Water System, and to the extent not so applied, will be applied on a pro rata basis to redeem the Bonds and any Parity Debt in accordance with the Indenture and the related Parity Debt Documents. The District will also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the District, the Trustee and the Owners of the Bonds and outstanding Parity Debt. Any insurance required by the Indenture may be maintained by the District in the form of self-insurance through a joint powers agreement or otherwise.

## **No Senior Parity Debt**

The District may not issue or incur any bonds, notes or other Parity Debt having any priority over the Bonds in the payment of principal or interest out of the Net Revenues.

## **Parity Debt**

Existing Parity Debt. The District's existing Parity Debt includes, State Revolving Fund construction loan and grant between the State Department of Public Health and the District, dated June 21, 2010 and a Construction Installment Sale Agreement No. SWRCB000000000D 180202000, by and between the California State Water Resources Control Board and the District, dated August 28, 2019, as amended.

Future Parity Debt. The District may issue bonds, notes or other obligations ("Parity Debt") payable from Net Revenues on a parity with the Bonds provided that certain conditions are satisfied, including the following:

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

(b) The amount of Net Revenues, as shown by the books of the District for the most recent completed Fiscal Year for which audited financial statements of the District are available, or for any more recent consecutive 12-month period selected by the District, in either case verified by an Independent Accountant or a Financial Consultant or shown in the audited financial statements of the District, plus, at the option of the District any Additional Revenues, are at least equal to 125% of the maximum amount of Debt Service coming due and payable in the current or any future Fiscal Year with respect to (i) the Bonds and all Parity Debt then outstanding and (ii) the Parity Debt then proposed to be issued;

(c) The total amount of outstanding variable-rate debt issued by the District may not exceed 12% of the total principal amount of all outstanding and proposed debt that is secured by Net Revenues of the District; and

(d) The District shall deliver to the Trustee a Certificate of the District certifying, that the conditions precedent to the issuance of such Parity Debt set forth in the Indenture have been satisfied.

For purposes of calculating Net Revenues to demonstrate compliance with paragraph (b) above, Gross Revenues does not include connection fees and charges, transfers from the Rate Stabilization Fund (if any), or interest income received by the Water Fund during the period for which the calculation of Net Revenues are made.

“Additional Revenues” is defined in the Indenture to mean, with respect to the issuance of any Parity Debt, any or all of the following amounts:

(i) An allowance for Net Revenues from any additions or improvements to or extensions of the Water System to be made from the proceeds of such Parity Debt in an amount equal to the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a Financial Consultant.

(ii) An allowance for Net Revenues arising from any increase in the charges made for service from the Water System which has been duly approved by the Board of Directors of the District prior to the incurring of such Parity Debt, but which, during all or any part of the most recent completed Fiscal Year for which audited financial statements of the District are available, or for any more recent consecutive 12-month period selected by the District under Section 3.04(b), was not in effect, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or 12-month period, all as shown by the certificate or opinion of a Financial Consultant.

State Loans. The District may borrow money from the State and incur State Loans to finance additional improvements to the Water System. “State Loans” means loans secured by a pledge of Net Revenues of the Water System and incurred by the District to finance improvements to the Water System. State Loans may be treated as Parity Debt, so long as the District complies with the requirements for issuing Parity Debt.

### **Subordinate Obligations**

Nothing in the Indenture limits or affects the ability of the District to issue or incur obligations which are either unsecured or which are secured by an interest in the Net Revenues which is junior and subordinate to the pledge of and lien upon the Net Revenues established under the Indenture.

**[Reserve Fund Insurance] [TO COME]**

## THE DISTRICT

### Overview of the District

General. The District is a public utility district organized and existing under the “Public Utility District Act,” being Section 15501 et seq. of the Public Utilities Code of the State of California. Operating through three separate utility enterprises, the District provides the following services within the Fallbrook area: (i) potable water service through its Water System, (ii) wastewater service through its wastewater system, and (iii) recycled water service through its recycled water system.

Fallbrook is a census-designated-place in unincorporated San Diego County. The County is the second-most populous county in the State and the fifth-most populous in the United States. The District is located in the north-east region of the County approximately 55 miles north of the City of San Diego and 7 miles northeast of Marine Corp. Base Camp Pendleton, making the District’s service area a bedroom community for Camp Pendleton’s active military and civilian-service workers.

Camp Pendleton. Marine Corps Base Camp Pendleton is the Corps’ largest West Coast expeditionary training facility encompassing more than 125,000 acres including more than 2,600 buildings and 500 miles of road. Camp Pendleton is one of the Department of Defense’s busiest installations and offers a broad spectrum of training facilities for many active and reserve Marine, Army and Navy units, as well as national, state and local agencies. Located seven miles from Fallbrook, Camp Pendleton has been the largest employer in northern San Diego County for the past 60 years.

More than 38,000 military family members occupy base housing complexes. With a daytime population of 70,000 military and civilian personnel, the Marines, Sailors and their families rely on the surrounding communities for retail goods and services not available on Base.

Fallbrook Area. Fallbrook is a census designated place (CDP) located in unincorporated northern San Diego County, with an estimated 2018 population of approximately 33,000. Fallbrook’s population has been relatively stable over the past several years. Additional demographic and economic information about Fallbrook and the County is located in APPENDIX A.

Local Supply. In January 2018, the District’s Board of Directors signed an agreement with Camp Pendleton in a settlement, which was adopted in April 2019. As part of the settlement, river water will flow to Camp Pendleton and be stored in recharge ponds that seep into an underground aquifer there. That stored water will be pumped out of the ground and piped back to the District when available. The Santa Margarita River Conjunctive Use Project (“SMRCUP”) provides a local supply, reducing dependence on expensive wholesale water purchases. While the amount of water available to the District will vary each year depending on regional weather and river hydrogeology, the SMRCUP is expected to supply just over half of the District’s water needs on average.

Treatment Plant. The District completed the Santa Margarita Groundwater Treatment Plant in 2022. The plant was constructed to treat the District’s SMRCUP water supply. This state of the art water treatment plant has a maximum capacity of 7.8 million gallons a day. The reverse osmosis treatment process provides the District with a high quality treated water supply.

Wholesale supplier. On January 1, 2024, the District detached from San Diego County Water Authority (“SDCWA”) and annexed into Eastern Municipal Water District. This move provides the District with a significant reduction in the cost of wholesale water while maintaining the District’s current level of water supply reliability. The process of detachment was managed by the San Diego County Local Agency Formation Commission. As part of the detachment agreement, the District will pay SDCWA \$8.51 million from funds on hand in unrestricted reserves.

Distribution System. The District’s water distribution system is comprised of 270 miles of pipeline, 6,800 valves, an ultraviolet disinfection water treatment plant, nine steel reservoirs, a 300-million-gallon treated water reservoir, five pump stations and plans for a groundwater treatment plant. District staff operate the system, and

conduct all system maintenance and repairs. The District has nearly completed an Advanced Metering Infrastructure system upgrade that will enable real-time meter reading and provide customers with real-time water use. The District has 4 connections to the imported water system, three of the four are directly connected to Metropolitan Water District (“MWD”) owned pipelines and the fourth, which is currently not in use, is connected to SDCWA’s pipeline.

**Service Area Map**

The map on the following page shows the service area of the District’s Water System.

**Board of Directors**

The Board of Directors of the District consists of five directors, each of whom is elected to a four-year term representing one of five subdistricts within the District. The current Board Members, their respective sub-districts, and the expiration of each director’s current term are as follows:

<u>Board Members</u>	<u>Subdistrict</u>	<u>Expiration of Term</u>
Dave Baxter	Subdistrict No. 1	December 2024
Ken Endter	Subdistrict No. 2	December 2026
Jennifer DeMeo	Subdistrict No. 3	December 2024
Don McDougal	Subdistrict No. 4	December 2024
Charley Wolk	Subdistrict No. 5	December 2026

Jennifer DeMeo, President. Ms. DeMeo has been on the Board since 2016. She is a longtime Fallbrook resident, and works within the health and safety industry for GreatCall Inc, which provides devices geared toward seniors. She is also a youth volunteer at North Coast Church in Fallbrook. She holds a bachelor’s degree in Religious Studies from Guilford College in North Carolina.

Don McDougal, Vice President. Mr. McDougal has been on the Board since 2004. He is the President/CEO of the Grand Tradition Estate and Gardens, his family’s business. A graduate of Fallbrook High, he has more than 40 years in the private business sector. After being away from Fallbrook for 28 years, he moved back to take over operation of the Grand Tradition in 1996. Mr. McDougal has a bachelor’s degree from California Polytechnic University in Agricultural Business Management.

Ken Endter, Director. Mr. Endter has been on the Board since 2018. He is retired from RADY Children’s Hospital where he worked as a diagnostic medical professional in the imaging department. He moved to Fallbrook in 2003 when RADY offered him the position. Prior to that, he worked for Kaiser Permanente and as a sub-contractor for the Department of Defense. He grew up in both Long Beach, California and on his family farm in Monticello, Utah which he managed and operated for many years. He has a bachelor’s degree from Seattle University in Diagnostic Ultrasound with a minor in Physics.

Dave Baxter, Vice President. Mr. Baxter has been on the Board since 2019. He is the senior director at Relevant Solutions, a company providing business solutions through instrumentation and automation, rotating and thermal equipment purification and building solutions. He has a background in water and wastewater treatment, working with municipalities and spent eight years in the Coast Guard. He is a Fallbrook business owner, owning and operating Fallbook Protea farm, and rental property throughout town. Mr. Baxter has two bachelor’s degrees from the University of Tennessee – in environmental engineering and chemical engineering.

Charley Wolk, Director. Mr. Wolk has been on the Board since 2014. Prior to that, he also served a 4-year term on the Board from 1990 to 1994. A resident of Fallbrook since 1972, he owns and operates the Bejoca Company, a local grove management services company. Mr. Wolk has a bachelor’s degree in Mechanical Engineering from Marquette University and a master’s degree in Management Engineering from George Washington University.

## District Management

Jack Bebee, General Manager. Mr. Bebee has more than 20 years in the management of engineering, operations, design and planning of water and wastewater infrastructure – including water treatment, distribution and wastewater collection and reclamation facilities. He began working for the District in 2009, and prior to that worked as a consultant, managing water and wastewater infrastructure projects. He has a Bachelor of Science degree in engineering from Washington and Lee University, a Master of Science in civil engineering from University of Illinois, and a Master of Business Administration from Cal. State University San Marcos, and holds a Professional Civil Engineering License in California.

David Shank, Assistant General Manager & Chief Financial Officer. Mr. Shank has more than 15 years in financial management. He began working for the District in 2017, and prior to that worked for the San Diego County Water Authority, as a consultant and an economist for the USDA. He has a Bachelor of Arts degree in economics from Emory University, and Master’s degrees in Resource & Agricultural Economics (UC Davis), Environmental Engineering (University of Illinois), and Public Administration (San Diego State University).

## THE WATER SYSTEM

### Overview

The District’s water distribution system is comprised of 270 miles of pipeline, 6,800 valves, an ultraviolet disinfection water treatment plant, nine steel reservoirs, a 300-million-gallon treated water reservoir, five pump stations and plans for a groundwater treatment plant. District staff operate the system, and conduct all system maintenance and repairs. The District has nearly completed an Advanced Metering Infrastructure system upgrade that will enable real-time meter reading and provide customers with real-time water use. The District has 4 connections to the imported water system, three of the four are directly connected to MWD owned pipelines and the fourth, which is currently not in use, is connected to SDCWA’s pipeline.

### Number of Water Connections

The following table shows the number of residential, single-family residential, multi-family residential, commercial and institutional, agricultural, and other connections for the Water System for the years shown.

**TABLE 1**  
**Fallbrook Public Water Connections**

<u>As of June 30 2023</u>	<u>Single-Family Residential</u>	<u>Multi-Family - Residential</u>	<u>Commercial &amp; Institutional</u>	<u>Agricultural</u>	<u>Other</u>	<u>Total</u>
2014	7,582	217	680	660	32	9,171
2015	7,581	217	679	695	33	9,205
2016	7,582	217	671	699	37	9,206
2017	7,617	217	673	674	38	9,219
2018	7,735	218	711	529	40	9,233
2019	7,742	218	713	533	45	9,251
2020	7,755	216	712	535	41	9,259
2021	7,757	218	711	543	41	9,270
2022	7,772	218	712	546	43	9,291
2023	7,787	217	712	551	43	9,310

Source: District.

## Top Ten Customers

The following table shows the ten largest customers of the Water System as of June 30, 2023, based on charges billed.

**TABLE 2**  
**Fallbrook Public Utility District**  
**Ten Largest Water Customers as of June 30, 2023**

<u>No.</u>	<u>Customer</u>	<u>Type of Business</u>	<u>Annual Usage (thousand gallons)</u>	<u>Percent of Total Usage</u>
1.	Altman Nursery		132,741	5.98%
2.	Fallbrook Union Elementary Sch. Dist.		29,140	1.31
3.	Premier Color Nursery		21,746	0.98
4.	Peppertree Park HOA		19,484	0.88
6.	Ranajit Ranch		16,881	0.76
5.	Hennell Grove		15,571	0.70
7.	Magdic Grove		15,346	0.69
8.	Fallbrook Union High School		15,326	0.69
9.	Sunlet Nursery		14,882	0.67
10.	Olive Hill Greenhouses		13,204	0.60
	Total, Top 10		294,321	13.26%
	Total, All Customers		2,219,046	

Source: District.

## Water System Facilities

### General.

Historically, the District imported 99% of its potable water from the SDCWA with the remaining 1% coming from a local well. With the Santa Margarita Groundwater Treatment Plant now operational, a significant amount of the District’s water supply is provided through its Santa Margarita River Water Rights. This new local supply is expected to reduce the average annual amount of water purchased from SDCWA by 40% or more. The District’s cost to treat and deliver the local water supply is expected to be less than the current cost of purchasing the same amount of water from SDCWA.

The District’s water distribution system is comprised of 270 miles of pipeline, 6,800 valves, an ultraviolet disinfection water treatment plant, nine steel reservoirs, a 300-million-gallon treated water reservoir, five pump stations and plans for a groundwater treatment plant. District staff operate the system, and conduct all system maintenance and repairs. The District has nearly completed an Advanced Metering Infrastructure system upgrade that will enable real-time meter reading and provide customers with real-time water use. The District has 4 connections to the imported water system, three of the four are directly connected to MWD owned pipelines and the fourth, which is currently not in use, is connected to SDCWA’s pipeline.

On January 1, 2024, the District detached from SDCWA and annexed into Eastern Municipal Water District (“EMWD”). This move provides the District with a significant reduction in the cost of wholesale water while maintaining the District’s current level of water supply reliability. The EMWD’s total water supply includes 18 percent local groundwater and desalination, 44 percent imported water, and 38 percent recycled water. The sole source of the EMWD’s imported water is the Metropolitan Water District. Metropolitan Water District owns and operates an extensive range of facilities including the Colorado River Aqueduct, 15 hydroelectric plants, nine reservoirs, 830 miles of large-scale pipes, and five water treatment plants. Metropolitan Water District also imports water from the Colorado River and Northern California to supplement local supplies.

## Historical Water Flows

The following table sets forth the historical average daily water flow for the fiscal years shown.

**TABLE 3**  
**Fallbrook Public Utility District**  
**Water Production**

<u>As of</u> <u>June 30, 2023</u>	<u>Annual Production</u> <u>(gallons)</u>	<u>Average Daily Production</u> <u>(gallons per day)</u>	<u>Percent</u> <u>Change</u>
2014	4,178,179,040	11,447,066	
2015	3,327,254,350	9,115,765	-20.4%
2016	3,235,951,180	8,865,620	-2.7
2017	3,114,930,490	8,534,056	-3.7
2018	3,287,934,350	9,008,039	5.6
2019	2,684,556,048	7,354,948	-18.4
2020	2,602,343,841	7,129,709	-3.1
2021	2,905,874,048	7,961,299	11.7
2022	2,686,152,719	7,359,323	-7.6
2023	2,169,744,054	5,944,504	-19.2

Source: District.

## Regulatory Matters

The U.S. Environmental Protection Agency (“EPA”), California State Water Resources Control Board (“State Water Board”), and the California Regional Water Quality Control Board, San Diego Region (“San Diego RWQCB”) regulate the System. The District is currently in compliance with all Federal and State regulatory requirements.

## Capital Improvement Program

The table below presents the District’s anticipated capital improvement projects with respect to the Water System for the fiscal years shown. The District cannot provide any assurance that any specific improvements will be completed or completed on the anticipated schedule, or that the expenditures shown below will made. The District does not expect to incur any additional bonded indebtedness to finance these capital improvements and expects to pay for such improvements from available revenues of the Water System.

**TABLE 4**  
**Fallbrook Public Utility District**  
**5-Year Capital Improvement Program**  
**Fiscal Years Ending June 30, 2024-28**

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>Total</u>
Pipeline & Valve Replacement (District)	\$ 680,000	\$ 598,500	\$ 622,440	\$ 647,338	\$ 673,231	\$ 3,221,509
Pipeline & Valve Replacement (Contractors)	5,760,000	4,928,344	3,739,067	4,060,056	4,771,673	23,259,140
DeLuz ID Projects	100,000	105,000	109,200	113,568	118,111	545,879
Pump Stations	100,000	1,123,500	54,600	56,784	59,055	1,393,939
Meter Replacement	20,000	21,000	21,840	22,714	23,622	109,176
Pressure Reducing Station Rehab.	40,000	21,000	-	-	-	61,000
Red Mtn. Reservoir Facility Improvements	24,000	236,250	54,600	56,784	118,111	489,745
Steel Reservoir Improvements	162,000	577,500	873,600	738,192	767,720	3,119,012
Santa Margarita Groundwater Treatment Plant	200,000	210,000	218,400	227,136	236,221	1,091,757
SCADA and Security	150,000	136,500	141,960	147,638	177,166	753,264
Vehicles and Heavy Equipment	<u>143,500</u>	<u>267,893</u>	<u>521,430</u>	<u>346,382</u>	<u>481,301</u>	<u>1,760,506</u>
	\$7,379,500	\$8,225,487	\$6,357,137	\$6,416,592	\$7,426,211	\$35,804,927

Source: District.



## FINANCIAL MATTERS OF THE DISTRICT

### **Basis of Accounting; Budgets**

The District's accounting system and practices are based upon Generally Accepted Accounting Principles ("GAAP") and are kept on an accrual basis. Under the accrual basis, revenues are recognized when earned and expenditures are recognized when a liability is incurred. The District's budget is prepared on a cash basis, which means that projected revenues are recognized when cash is assumed to be received and projected expenses are recognized when cash is disbursed.

The District operates as an enterprise fund, which has a set of self-balancing accounts that record the financial position of each of the District's services. The service funds track revenues from service fees and operating expenses specific to each service. This, in turn, makes each service fund independent and self-sufficient, and also ensures service fees are set to recover only costs associated with the particular service.

Each year, the District develops and adopts a new budget for the upcoming fiscal year. The budgeting process begins in January and starts with the budget message. The budget message establishes the priorities of the District in the next fiscal year and provides budget managers guidance on how to prioritize their budget needs. Along with the budget message, each manager/supervisor is provided a spreadsheet that has the current and projected operating expenditures for the current fiscal year and a placeholder for the proposed operating budget.

### **Financial Policies**

Fund Balance Policies. Article 6 of the District's Administrative Code describes the Appropriated Fund Balances for the Water System, which includes a Working Capital Fund and a Santa Margarita Debt Payment Fund.

- The Working Capital Fund is established and maintained at a level of three months operating and maintenance expenses, including water purchases. .
- The Santa Margarita Debt Payment Fund is established to prevent "spikes" and mid-year changes in rates because of net revenue shortfalls due to weather conditions, state or federal legislation or other future uncertainties. The target level is equal to 2-years of debt service payments on the Santa Margarita Conjunctive Use Project financing.

Investment Policy. The Investment Policy, which is set forth in Article 18 of the District's Administrative Code, establishes permitted investments for the District in compliance with State law. The Board delegates its authority to manage the investments of the District to the Treasurer, under the supervision of the General Manager. The objectives of the investment policy are, in order of importance: (i) to safeguard principal, (ii) meet the District's liquidity needs, (iii) achieve a return on investment within the parameters of prudent risk management.

Debt Management Policy. The Debt Management Policy, adopted by the Board in May 2017, complies with California Government Code section 8855(i). The policy sets forth the District's goals for the approval and issuance of bonds, notes and other debt instruments and sets forth guidelines for the use of debt to finance of capital projects.

Capitalization Policy. The Capitalization Policy establishes the parameters for costs to be defined an operating or capital expenditure of the District.

### **Long-Range Planning and Goals**

The District maintains over 370 miles of buried water and sewer pipe that must be maintained and replaced. The District also has pump stations, lift stations and treatment facilities that require significant expenses to replace and maintain. The District develops plans to reduce the overall cost of operating these facilities by completing proactive capital projects to replace and rehabilitate these assets versus waiting for system failures. The annual Capital Improvement Budget is used to implement the District's long-range capital goals. These goals

are developed using the District's Strategic Plan, Urban Water Management Plan, Asset Management Plan and Master Plans. These plans are utilized to develop the lowest lifecycle cost to meet water and wastewater needs and maintain system reliability for the District's customers. Projects are selected based on weighing prioritized needs versus available capital funds. Individual project costs are estimated based on current construction cost information.

The District has identified the following long-range strategic goals: (1) to diversify its water supply by reducing its reliance on imported water from SDCWA, (2) to maintain the operational integrity of its aging infrastructure, (3) to improve operational efficiency, (4) to enhance customer service, and (5) to improve workforce training and development.

## **Water Rates and Charges**

On December 4, 2023, the District's Board of Directors adopted Resolution No. 5064, which approved the increased rates for water and recycled water service charges, and rates for wastewater service charges.

On September 21, 2022, the District issued the 2022 Water, Wastewater, and Recycled Water Rate Study. The study developed long-term financial projections for the District's water, wastewater and recycled water utilities and calculates new rates designed to equitably recover the costs of providing service. The recommended rates were designed to meet the District's funding needs and comply with legal requirements. The proposed rates incorporated both overall rate increases as well as some modifications to the rate structures designed to improve rate equity and align rates with the cost of providing service. Rate increases are phased in over five years to minimize the annual impact on customers. The rate structure recommendations included:

- Residential: Maintain a lower volumetric rate for the first 5,000 gallons (5 Kgal) of residential water use in Tier 1, reflecting the lower cost to provide water supply for base indoor demands. Combine residential Tiers 2 & 3 into a single tier for all water use above the first 5,000 gallons to reflect current costs of service.
- Non-Residential: Charge the same uniform volumetric rate to Commercial, Government, and Irrigation customer classes, which currently have extremely close but slightly different rates.
- Agricultural: Maintain volumetric rates for Agricultural water use based on lower-cost water supply including reduced SDCWA wholesale water supply rates for customers who qualify for SDCWA's Permanent Special Agricultural Water Rate Program.
- Recover MWD's Readiness-to-Serve Charge via the District's volumetric water rates, instead of as a small, separate pass-through charge based on meter size, to align costs with sources of water supply to each customer class,
- Maintain the supplemental Pumping Charges to recover the incremental costs of electricity needed to provide water supply to higher-elevation service areas but eliminate the small supplemental \$0.10 per thousand gallons Pumping Capital Improvement Charge as the District's pumping facilities provide some benefit to all customers.
- Eliminate the reduced Standby Capital Improvement Charges levied on standby customers (accounts with suspended service) and instead have Standby customers pay the same Capital Improvement Charges as all other customers.
- Continue the historical practice of automatic annual adjustments to a) Capital Improvement Charges based on the annual change in the Engineering News-Record Construction Cost Index + 3% to account for a planned gradual increase in capital improvement funding, and to b) SDCWA Infrastructure Access Charges based on actual charges established by SDCWA.

Monthly Water Service Charges. The monthly water service charges of the District are set forth in the following table.

**TABLE 5**  
**Fallbrook Public Utility District**  
**Monthly Water Service Charges (Dollars Per Thousand Gallons)**

	<u>Domestic</u>			<u>Commercial</u>		<u>Government</u>	<u>Special</u>	<u>Commercial</u>
	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 3</u>	<u>Tier 1</u>	<u>Tier 2</u>		<u>Agricultural</u>	<u>Agricultural</u>
2014	4.03	4.64	5.11	4.03	4.64	4.64	3.14	4.06
2015	4.19	4.61	5.08	4.19	4.61	4.61	3.14	4.06
2016	4.38	4.82	5.31	4.38	4.82	4.82	3.18	4.28
2017	5.21	5.74	6.32	5.21	5.74	5.74	3.65	4.97
2018	5.62	5.71	6.95	5.79	5.79	5.70	4.17	4.83
2019	5.96	6.05	7.37	6.14	6.14	6.04	4.42	5.12
2020	6.44	6.53	7.96	6.63	6.63	6.52	4.77	5.53
2021	6.83	6.92	8.44	7.03	7.03	6.91	5.06	5.86
2022	7.17	7.27	8.86	7.38	7.38	7.26	5.31	6.15
2023	7.31	8.06	n/a	7.72	7.72	7.72	5.63	6.38

Source: District

Monthly Capital Improvement Charge. The following table sets forth a history of the District’s monthly capital improvement for the years shown.

**TABLE 6**  
**Fallbrook Public Utility District**  
**Monthly Capital Improvement Charge**

<b>As of</b>	<b>3/4"</b>	<b>1"</b>	<b>1 ½"</b>	<b>2"</b>	<b>3"</b>	<b>4"</b>	<b>6"</b>	
<b>June 30</b>	<b><u>Meter</u></b>	<b><u>Meter</u></b>	<b><u>Meter</u></b>	<b><u>Meter</u></b>	<b><u>Meter</u></b>	<b><u>Meter</u></b>	<b><u>Meter</u></b>	<b><u>Standby</u></b>
2014	8.00	11.00	16.00	25.00	42.00	66.00	120.00	4.80
2015	8.59	11.81	17.18	26.84	45.10	70.87	128.85	5.15
2016	9.06	12.46	18.12	28.31	47.57	74.75	135.90	5.44
2017	9.45	12.99	18.90	29.53	49.61	77.96	141.75	5.67
2018	8.58	14.30	28.60	45.76	91.52	143.00	286.00	variable
2019	9.12	15.20	30.40	48.64	97.29	152.01	304.02	variable
2020	9.47	15.78	31.56	50.49	100.98	157.79	315.57	variable
2021	9.77	16.27	32.55	52.07	104.14	162.72	325.43	variable
2022	10.10	16.82	33.66	53.84	107.68	168.25	336.50	variable
2023	11.11	18.50	37.03	59.22	118.45	185.08	370.15	variable

Source: District.

Comparison of Average Monthly Residential Water. The following table sets forth a comparison of average monthly residential water rates, as of January 1, 2024.

**TABLE 7**  
**Fallbrook Public Utility District**  
**History of Water CIC**  
**2024-2029**

<u>City/Agency</u>	<u>Average Monthly Rate<sup>1</sup></u>
Ramona	
Oceanside	
Rainbow	
Fallbrook	
Olivenhain	
Encinitas	

Source: District.

**Collection of Water Service Charge; Delinquencies**

Billing and Collections. The District bills for water, wastewater and recycled water services (as applicable) on a single bill on a monthly basis. Nearly all of the customers of the Water System are also customers of the wastewater System.

Billing due dates fall on the 10th, 20th, and 30th of the month depending on meter location in the District. All charges for water and sewer services during specified meter read dates are due and payable when rendered. Bills become delinquent the day after the due date. Residential accounts not paid within 30 days of the due date are sent past due statements and the meters are subject to lock-up for non-payment. Non-Residential accounts not paid within 30 days of the due date are subject to meter lock-up. All water accounts accrue a \$30 Delinquent Processing Fee on the 31st day of delinquency.

Accounts not paid within 30 days after lock-up and accounts that have tampered with the meter to obtain water illegally are subject to removal of meters and permanent disconnection of water service. Standby charges will continue to accrue after the meter has been removed. If a meter has been locked for non-payment for a period of 90 days, it may be placed on Standby Service by the District. Standby Service charges will accrue from that time until an application for service restoration has been received by the District. The District must be notified in a timely manner with the name and mailing address of the new owner or tenant and the upcoming date of transfer. Notification of the transfer of property ownership, or tenancy, is the responsibility of the owner/seller. The District is not responsible for the proration of the final billing if notification is not received prior to the date of sale, or change of tenancy.

Lien for Unpaid Bills. In addition to any other remedy provided in the District’s Administrative Code or by law for the collection of any water and wastewater rates, charges or accounts, all rates or service charges provided for in District’s Administrative Code shall be charged and become a charge against the property on which the water is furnished and against the owner thereof, and all charges for water so served to a property shall be and become a lien against the premises upon which the water is used or served. Standby accounts with a delinquent balance greater than \$500 as of April 1st of each year may be sent notification of intent to place delinquent and unpaid charges on the annual tax roll. The notification will be sent by May 1st and provides the customer 60 days to bring the account current. If the amount is not brought current by July 1st, the portion of the delinquency due as of the prior April 1st may be reported to the County Treasurer for inclusion on the annual taxes levied on the property.

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<sup>1</sup> Based on \_\_\_ units of water and ¾” residential meter size.

If for any reason or cause the sums of money owing for such water services are not paid as required by the terms and provisions of the District’s Administrative Code, the District shall have the right to shut off such water, and in no case shall service of water be resumed on the same property until all such delinquencies and additional turn-on charges shall have been paid in full. Delinquent bills from former owners or tenants are the responsibility of the present owner.

Historical Delinquencies. Historically, delinquency rates for the Water System have been [low/high]. For example, the delinquency rate for the prior two fiscal years was \_\_\_% for Fiscal Year 2022-23 and \_\_\_% for Fiscal Year 2023-24 respectively. Delinquent amounts owed to the District are placed on the County’s secured property roll for collection in the fiscal year following delinquency. See “–Teeter Plan,” below.

**Property Taxes; District Assessed Valuations**

Assessed Valuations. As provided by Article XIII A of the California Constitution, county assessors’ assessed values are to reflect market value as of the date the property was last assessed (or 1975, whichever is more recent), increased by a maximum of 2% per year. Properties may be reassessed by the county only upon a change of at least 51% ownership of existing property or upon new construction. The assessed values of parcels within the service area of the District thus reflect, for undeveloped parcels, the estimate of each county assessor (the “Assessor”) of market value when acquired (or 1975, whichever is later), possibly increased by 2% per year, and for parcels on which construction has occurred since their date of acquisition, the Assessor’s estimate of market value as of the time of construction, possibly increased by 2% per year. Because of the general limitation to 2% per year in increases in full cash value of properties that remain in the same ownership, the County tax roll does not reflect values uniformly proportional to actual market values.

**Assessed Valuation of Taxable Property.**

The table below sets forth the assessed valuation of taxable property for the years below.

**TABLE 8**  
**Fallbrook Public Utility District**  
**Assessed Valuation of Taxable Property**

<u>As of June 30</u>	<u>Local Assessed</u>	<u>State Assessed</u>	<u>Unsecured Value</u>	<u>Total</u>	<u>% Change</u>
2014	3,058,914,090%	-	39,761,073%	3,098,675,163%	-
2015	3,234,556,718	-	40,480,476	3,275,037,194	5.7%
2016	3,390,367,447	-	37,440,559	3,427,808,006	4.7
2017	3,518,846,961	-	36,135,611	3,554,982,572	3.7
2018	3,709,470,372	-	36,271,614	3,745,741,986	5.4
2019	3,895,955,738	-	41,211,234	3,937,166,972	5.1
2020	4,078,331,287	-	41,515,562	4,119,846,849	4.6
2021	4,268,726,975	-	42,961,480	4,311,688,455	4.7
2022	4,399,211,909	-	37,054,002	4,436,265,911	2.9
2023	4,739,631,751	-	46,156,838	4,785,788,589	7.9

Source: District.

**Property Tax Levy and Collections.**

Table 9 sets forth the property tax levy and collections for the dates below.

**TABLE 9  
Fallbrook Public Utility District  
Property Tax Levy and Collections**

<u>As of June 30</u>	<u>Current Levy</u>	<u>Total Collections</u>	<u>Collections Rate</u>	<u>Delinquency Rate</u>
2014	887,378	874,729	98.6%	1.4%
2015	933,206	921,440	98.7	1.3
2016	982,997	970,998	98.8	1.2
2017	1,022,747	1,009,595	98.7	1.3
2018	1,072,468	1,060,447	98.9	1.1
2019	1,122,771	1,108,272	98.7	1.3
2020	1,169,224	1,154,850	98.8	1.2
2021	1,221,575	1,205,539	98.7	1.3
2022	1,274,829	1,245,713	97.7	2.3
2023	1,388,768	1,359,100	97.9	2.1

Source: District.

**Water Fund Revenues, Expenses, Debt Service Coverage.**

Table 10 sets forth the water fund revenues, expenses and debt service coverage for the dates below.

**TABLE 10  
Fallbrook Public Utility District  
Water Fund Revenues, Expenses and Debt Service Coverage**

<u>Fiscal Year Ending June 30,</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Operating Revenues:						
Water Sales	\$24,466,233	\$20,481,788	\$21,940,234	\$25,429,014	\$25,245,783	\$23,467,210
Sub-Total	\$24,466,233	20,481,788	21,940,234	25,429,014	25,245,783	23,467,210
Operating Expenses (excl depr):						
Cost of Water Sold	\$14,453,229	\$12,650,795	\$12,663,006	\$13,955,908	\$13,245,830	\$10,716,859
Operations & Maintenance	3,922,528	3,444,139	3,984,938	3,330,054	6,046,295	3,126,441
Administrative & General Expenses	2,868,610	3,807,921	3,985,541	4,036,546	4,322,980	4,642,717
Sub-Total	\$21,244,367	\$19,902,855	\$20,633,485	\$21,322,508	\$23,615,105	\$18,486,017
Net Operating Income	\$3,221,866	\$578,933	\$1,306,749	\$4,106,506	\$1,630,678	\$4,981,193
Non-Operating Revenues (Expenses)						
Property Taxes	\$1,984,543	\$2,106,034	\$2,205,975	\$2,340,185	\$2,397,429	\$2,617,564
Capital Improvement Charges	2,476,452	2,505,876	2,559,135	2,604,061	2,650,202	2,838,696
Investment Income	18,188	915,275	920,135	1,543,078	(1,835,245)	932,974
Connection Fees	411,774	180,966	107,107	149,650	193,201	186,946
Sub-Total	\$4,890,957	\$5,708,151	\$5,792,352	\$6,636,974	\$3,405,587	\$6,576,180
NET REVENUES	\$8,112,823	6,287,084	7,099,101	10,743,480	5,036,265	11,557,373
Debt Service Expense:						
2010 SRF Loan Principal	\$278,617	\$285,825	\$293,220	\$300,807	\$308,589	\$316,573
2010 SRF Loan Interest	117,233	110,025	102,631	95,044	87,261	79,277
Sub-Total	\$395,850	395,850	395,851	395,851	395,850	395,850
2018 SRF Loan Principal	n/a	n/a	0	0	0	0
2018 SRF Loan Interest	n/a	n/a	20	411,558	974,071	1,166,428
Sub-Total			20	411,558	974,071	1,166,428
Total Debt Service Expense	\$395,850	\$395,850	\$395,871	\$807,409	\$1,369,921	\$1,562,278
Debt Service Coverage (DSC)	20.5	15.9	17.9	13.3	3.7	7.4

Source: Fallbrook Public Utility District Audited Financial Statements, 2018-2023.

**Water Demand by Type of Customer.**

Table 11 sets forth water demand by type of customer.

**TABLE 11**  
**Fallbrook Public Utility District**  
**Water Demand Type of Customer (Thousands of Gallons)**

<u>Customer Type</u>	<u>June 30, 2023</u>	<u>Share</u>
Residential	1,452,252	60.2%
Commercial	150,254	6.2
Government	40,176	1.7
Irrigation Only	7,671	0.3
Agricultural	<u>760,944</u>	<u>31.6</u>
	2,411,297	100.0%

Source: District.

**Typical Monthly Residential Bill**

Table 12 below shows a typical monthly residential water bill for the District.

**TABLE 12**  
**Fallbrook Public Utility District**  
**Typical Monthly Residential Water Bill (3/4" Connection)**

<u>Fixed Monthly Service Charge</u>	60.60
Capital Improvement Charge (CIC)	11.11
CWA IAC	4.24
<u>Monthly Volumetric Service Charge:</u>	
First 5 units	36.55
Next 4 units	<u>32.24</u>
<b>Total</b>	144.74

Source: District.

**Property Tax Delinquencies; Teeter Plan**

General – Teeter Plan. The Board of Supervisors in the County has adopted the “Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds” (the “Teeter Plan”), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. The Teeter Plan provides for the allocation and distribution of property tax levies and collections and of tax sale proceeds. Under this method, the County pays the District 100% of property taxes due to the District and retains any penalties or delinquencies collected to offset such payment. There can be no assurance that the County will not discontinue the Teeter Plan or remove the District, or the property tax payable to the District, from the Teeter Plan in the future.

The Teeter Plan covers not only the District’s portion of the 1.0% general secured property tax levy apportioned to the District each year, but also any delinquencies that the District has placed onto the secured property tax bill for collection.

The following table sets forth the property tax collections and delinquencies for the District for the fiscal years shown. Notwithstanding the historical delinquency rate shown, the District receives 100% of the property taxes levied for the District by the County pursuant to the Teeter Plan.

Property Tax Delinquencies. Table 13 below shows the property tax delinquencies as of \_\_\_\_\_.

[INSERT TABLE 13]

**Parity Debt**

Existing Parity Debt. The only Parity Debt currently outstanding is a State Revolving Fund construction loan and grant between the State Department of Public Health and the District, dated June 21, 2010 and a Construction Installment Sale Agreement No. SWRCB000000000D 180202000, by and between the California State Water Resources Control Board and the District, dated August 28, 2019, as amended.

**Pension and OPEB Plans**

Pension Benefits. The District participates in CalPERS and has two benefit tiers. The Classic employees are eligible to receive 2.5% of their single highest annual salary for each year of service at the age of 55. An employee hired after January 1, 2013, and is new to CalPERS, or those that have had a break in service of more than six-months fall under the California Public Employees' Pension Reform Act of 2013 ("PEPRA"). PEPRA employees are eligible to receive 2.0% of the highest three-year average annual salary for each year of service at the age of 62. Both Classic and PEPRA employees are potentially subject to salary maximums when determining their benefit, see APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDING."

CalPERS Unfunded Actuarial Accrued Liability. The District contributes to the California Public Employees Retirement System ("CalPERS"), a cost-sharing multi-employer defined benefit pension plan (the "Plan"). CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California.

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The AUL is portion of the pension liability that has been earned but has not been fully funded. The liability is estimated by an actuary based upon many different underlying assumptions. CalPERS amortizes these existing liabilities over a 30-year period. The District's net pension liability in Fiscal Year 2020-21 was \$11.5 million. In Fiscal Year 2021-22, the latest CalPERS valuation date, the District's pension liability was 79.2% funded for Classic employees and 104.2% funded for PEPRA employees. Overall, including the Pension Trust Funds, the District has funded 85% of its pension liabilities, see APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDING."

The Normal Cost Rate ("NCR") is the percentage of payroll that is contributed to CalPERS to pay for the benefit earned by employees in the current year. This rate is expressed as a percent of payroll. The NCR for Classic employees for Fiscal Year 2023-24 is 14.92% of payroll, which is up from the Fiscal Year 2022-23 which was 13.02%. The NCR for PEPRA employees is 8.0% of payroll in Fiscal Year 2023-24 and was 7.76% in Fiscal Year 2022-23.

Other Post-Employment Benefits ("OPEB") Benefits. Effective January 7, 2022, the District provides a retiree healthcare benefit to employees who were hired before July 1, 2022, have ten years of service and are 50 or older. Under the OPEB benefit the District pays for half of the employees' health insurance premium until the beneficiary is 65-years old. The employee must contribute the other half of the insurance premium. The District has established the Section 115 Pension and OPEB Trust Fund to fund the District's OPEB liabilities. The District's OPEB liability is almost fully funded based upon an actuarial valuation report as of June 30, 2021. As of March 31, 2023, the OPEB Trust Fund held \$1,122,669 .

Section 115 Pension and OPEB Trust Fund. The Section 115 Pension and OPEB Trust Fund was set up in Fiscal Year 2016-17 as an irrevocable trust established for the benefit of the pension and Other Post-



Employment Benefits beneficiaries. The fund is managed by Public Agency Retirement Services (PARS) and is restricted in its use to funding pension and OPEB expenditures. The funds restricted for OPEB and pension costs are tracked in the fund. The fund balance was \$9.8 million on March 31, 2023. The District OPEB obligation is nearly fully funded and no additional contributions will be made this budget. The District has developed a strategy to use returns from the fund to help off-set on-going OPEB costs.

For additional details on the District's pension liabilities, and the assumptions included therein, see APPENDIX B.

## **RISK FACTORS**

### **Accuracy of Assumptions**

To estimate the revenues that will be available to pay debt service on the Bonds, the District has made certain assumptions with regard to the rates and charges to be imposed in future years, the expenses associated with operating the Water System and the interest rate at which funds will be invested. The District believes these assumptions to be reasonable, but to the extent that any of these assumptions fail to materialize, the Net Revenues available to pay debt service on the Bonds will, in all likelihood, be less than those projected herein.

### **System Demand**

There can be no assurance that the demand for potable or recycled water services will occur as described in this Official Statement. Reductions in demand could require an increase in rates or charges in order to comply with the rate covenant. Demand for potable or recycled water services could be reduced as a result of hydrological conditions, conservation efforts (including in response to drought), an economic downturn or other factors.

### **Limited Recourse on Default**

If the District defaults on its obligation to pay the principal of and interest on the Bonds, the Trustee has the right to declare the total unpaid principal of the Bonds, together with the accrued interest thereon to be immediately due and payable. However in the event of a default and such acceleration, there can be no assurance that the District will have sufficient funds to pay the accelerated amounts due on the Bonds from the Net Revenues.

### **Regulatory Requirements**

The operations of the Water System are subject to state and federal laws and regulations, particularly with respect to water quality discharge requirements. The adoption of more stringent laws or regulations may cause the District to incur greater expenses for the operation of the Water System. No assurance can be given that the costs of complying with any such new laws or regulations will not adversely affect the District's ability to generate sufficient Net Revenues in the amounts or on the schedule required by the Indenture.

To the extent regulatory agencies or other governmental agencies impose more stringent requirements on the District's distribution of water, costs could increase.

### **Natural Disasters**

General. From time to time, the service area of the District is subject to natural calamities that may adversely affect economic activity in the District, which could have a negative impact on Water System finances. There can be no assurance that the occurrence of any natural calamity would not cause substantial damage to the Water System, or that the District would have insurance or other resources available to make repairs to the Water System in order to generate sufficient Net Revenues to pay debt service on the Bonds when due. The casualty and liability insurance maintained by the District may not cover damages and losses to the Water System due to earthquake, fire, flood or other natural calamities.

Seismic. Like most of California, the service area of the District is subject to unpredictable seismic events such as earthquakes. Potential hazards related to earthquakes include ground shaking, surface rupture along the

fault zone, and related secondary ground failures. Typical seismically-induced ground failures include liquefaction, lateral spreading, ground lurching, landslides, inundation, and settlement. Seismic events could destroy or damage portions of the Water System, thereby increases the District's expenses, or reduce demand for its water service by damaging businesses and residential dwelling that are customers, thereby decreasing revenues.

Flooding. Portions of the service area of the District are subject to flooding from time to time, primarily as a result of large-scale winter rain events. Flooding may cause damage to the District's facilities or other structures within the District's service area and any such damage may be material.

Fire. In recent years, portions of California have experienced wildfires that have burned thousands of acres and destroyed thousands of homes and structures, even in areas not previously thought to be prone to wildfires. Such areas affected by wildfires are more prone to flooding and mudslides that can further lead to the destruction of homes. Fires may cause damage to District facilities or other structures within the District's service area and any such damage may be material. To date, there have been no wildfires in the District's service area that have destroyed a significant amount of property or disrupted service for any significant period of time.

Drought. From time to time, areas of the State have experienced significant drought conditions that resulted in severe impacts to water supplies and restrictions on water use. On July 8, 2021, Governor Newsom issued Executive Order No. 10-21, which declared a drought state of emergency in 50 counties in northern and central California and requested that all water users voluntarily reduce water use by fifteen percent (15%). On October 19, 2021, the Governor extended the declaration to include the remaining counties, such that the drought state of emergency is in effect Statewide. In the last ten years, the per capita water use in the system has been reduced due to conservation measures. The District does not believe that California's drought conditions would impact the District's finances. However, there can be no assurance that subsequent declarations will not result in mandatory restrictions on water use in the District's service area should dry conditions persist in future years. An increase in drought conditions could also lead to wildfires which may cause damage within the District. See "Fire" above.

## **Climate Change**

Numerous scientific studies on global climate change show that, among other effects on the global ecosystem, sea levels will rise, extreme temperatures will become more common, and extreme weather events will become more frequent as a result of increasing global temperatures attributable to atmospheric pollution. For example, the Fifth National Climate Assessment, published by the U.S. Global Change Research Program, in November 14, 2023 (NCA5) finds that climate change is affecting agriculture, forests, rural communities, water, and natural resources across the United States, and will continue to over the next century through changing temperatures, precipitation patterns, drought, flooding, and increasingly more severe extreme events, such as wildfires.

## **Cybersecurity**

The District, like many other public and private entities, relies on computer and other digital networks and systems to conduct its operations and finances. As a recipient and provider of personal, private and other sensitive electronic information, the District is potentially subject to multiple cyber threats including, but not limited to, hacking, viruses, malware, ransomware and other attacks on computer and other sensitive digital networks and systems. Entities or individuals may attempt to gain unauthorized access to the District's systems for the purposes of misappropriating assets or information or causing operational disruption or damage.

The District has never had a major cyber breach that resulted in a financial loss or operational disruption. The District provides training to its staff on phishing and safe browsing and how to avoid potential cyber threats. However, no assurances can be given that the security and operational control measures of the District will be successful in guarding against any and each cyber threat or breach.

## **Limited Recourse on Default**

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

## **Limitations on Remedies**

The ability of the District to comply with its covenants under the Indenture and to generate Net Revenues sufficient to pay principal of and interest on the Bonds may be adversely affected by actions and events outside of the control of the District, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “– Constitutional Limitations on Appropriations and Fees” below. Furthermore, any remedies available to the Owners of the Bonds upon the occurrence of an Event of Default under the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on Bond Owner remedies contained in the Indenture, the rights and obligations under the Bonds and the Indenture may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

## **Articles XIII C and XIII D**

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

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

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

In addition, Article XIII D includes a number of limitations applicable to existing fees and charges including provisions to the effect that: (a) revenues derived from the fee or charge may not exceed the funds required to provide the property-related service; (b) such revenues may not be used for any purpose other than that for which the fee or charge was imposed; (c) the amount of a fee or charge imposed upon any parcel or person

as an incident of property ownership may not exceed the proportional cost of the service attributable to the parcel; (d) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property related fees or charges based on potential or future use of a service are not permitted; and (e) no fee or charge may be imposed for general governmental purposes.

Based upon the California Court of Appeal decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the State Supreme Court, it was generally believed that Article XIID did not apply to charges for water services that are “primarily based on the amount consumed” (i.e., metered water rates), which had been held to be commodity charges related to consumption of the service, not property ownership. The Supreme Court stated in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal. 4th 205 (2006) (the “Bighorn Case”), however, that fees for ongoing water service through an existing connection were property-related fees and charges. The Supreme Court specifically disapproved the holding in *Howard Jarvis Taxpayers Association v. City of Los Angeles* that metered water rates are not subject to Proposition 218. The District has complied with the notice and public hearing requirements of Article XIID in establishing Water System rates and charges.

Article XIIC. Article XIIC provides that the initiative power may 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 is applicable to all local governments. Article XIIC does not define the terms “local tax,” “assessment,” “fee” or “charge,” so it was unclear whether the definitions set forth in Article XIID referred to above are applicable to Article XIIC. Moreover, the provisions of Article XIIC are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. On July 24, 2006, the Supreme Court held in the Bighorn Case that the provisions of Article XIIC included rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations. In any event, the District does not believe that Article XIIC grants to the voters within the District the power to repeal or reduce rates and charges for the water service in a manner which would be inconsistent with the contractual obligations of the District. On August 3, 2020, the Supreme Court issued an opinion in *Wilde v. City of Dunsmuir* (2020) 9 Cal.5th 1105 holding that taxpayers do not have the right under Proposition 218 to challenge water rates by referendum and the District does not believe that Article XIIC grants to the voters within the District the power (whether by initiative under Article XIIC or otherwise, or by referendum, which is not authorized under Article XIIC) to repeal or reduce rates and charges for water service in a manner that would interfere with the contractual obligations of the District to maintain and operate the Water System.

However, there can be no assurance of the availability of particular remedies adequate to protect the beneficial owners of the Bonds. Remedies available to beneficial owners of the 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. So long as the Bonds are held in book-entry form, DTC (or its nominee) will be the sole registered owner of the Bonds and the rights and remedies of the Bond Owners will be exercised through the procedures of DTC.

## **Proposition 26**

Proposition 26 was approved by the electorate at the November 2, 2010 election and amended California Constitution Articles XIII A and XIIC. The proposition imposes a two-thirds voter approval requirement for the imposition of fees and charges by the State. It also imposes a majority voter approval requirement on local governments with respect to fees and charges for general purposes, and a two-thirds voter approval requirement with respect to fees and charges for special purposes. Proposition 26, according to its supporters, is intended to prevent the circumvention of tax limitations imposed by the voters in California Constitution Articles XIII A, XIIC and XIID pursuant to Proposition 13, approved in 1978, Proposition 218, approved in 1996, and other measures through the use of non-tax fees and charges. Proposition 26 expressly excludes from its scope 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 cost to the State or local government of providing the service or product to the payor. Proposition 26 applies to charges imposed or increased by local governments after the date of its approval. The District believes its Water System rates and charges are not taxes under Proposition

26. The District is unable to predict at this time how Proposition 26 will be interpreted by the courts or what its ultimate impact will be.

### **Constitutional Limitations on Appropriations and Fees**

Under Article XIII B of the California Constitution, as amended, state and local government entities have an annual “appropriations limit” which limits their ability to spend certain moneys called “appropriations subject to limitation,” which consist of tax revenues, certain state subventions and certain other moneys, including user charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge. The District is of the opinion that the user charges of the Water System imposed by the District do not exceed the costs the District reasonably bears in providing the Water Service. In general terms, the “appropriations limit” is to be based on certain 1978/79 expenditures, and is to be adjusted annually to reflect changes in the consumer price index, population, and services provided by these entities. Among other provisions of Article XIII B, if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

### **Future Initiatives**

Articles XIII B, XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time other initiatives have been and could be proposed and adopted affecting the Water System’s revenues or ability to increase revenues. Neither the nature and impact of these measures nor the likelihood of qualification for ballot or passage can be anticipated by the District.

### **Loss of Tax Exemption**

In order to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds, the District has covenanted in the Indenture to comply with the applicable requirement of the Internal Revenue Code of 1986, as amended (the “Code”), and not to take any action or fail to take any action if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Code. Interest on the 2023 Bonds could become includable in gross income for purpose of federal income taxation retroactive to the date of issuance of such Bonds as a result of acts or omissions of the District in violation of this or other covenants in the Indenture applicable to the Bonds. The Bonds are not subject to redemption or any other increase in interest rates should an event of taxability occur and will remain outstanding until maturity or prior redemption in accordance with the provision contained in the Indenture. See caption “TAX MATTERS.”

### **Impact of Economic Conditions of the Development in the District**

Certain events and factors which negatively affect the regional, State and national economies could have an adverse effect on Water System and its finances, such as the COVID-19 pandemic and global market instability caused by the war in Ukraine and in the Middle East. Any adverse impact of the foregoing and other economic factors on the Water System and its finances cannot be predicted.

### **CONTINUING DISCLOSURE**

[UPDATE CONTINUING DISCLOSURE REPORTING STATUS].

The District has covenanted for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the District and the Water System by not later than March 1st following the end of each fiscal year (presently June 30), commencing with its report for the fiscal year ended June 30, 2024 (the “Annual Report”), due March 1, 2025, and to provide notices of the occurrence of certain enumerated events. The Annual Reports and notices of enumerated events will be filed with the Municipal Securities Rulemaking Board (the “MSRB”). These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12 (the “Rule”). The specific nature of the information to be contained in the Annual Report and the enumerated events is summarized in APPENDIX F – “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

## LEGAL OPINIONS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving opinion of Best Best & Krieger, LLP, Riverside, California, Bond Counsel, and certain other conditions. Best Best & Krieger LLP is also serving as Disclosure Counsel to the District. Certain legal matters will be passed upon for the District by the District's general counsel, Best Best & Krieger LLP. The compensation of Bond Counsel and Disclosure Counsel is contingent on the successful sale of the Bonds.

## TAX MATTERS

In the opinion of Best Best & Krieger LLP, Riverside, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Interest on the Bonds is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, for tax years beginning after December 31, 2022, interest on the Bonds is taken into account in determining the annual adjusted financial statement income of certain corporations for the purpose of computing the alternative minimum tax imposed on certain corporations. Bond Counsel notes that interest on the Bonds is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the Bonds is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the Bonds to assure that interest on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements.

Should the interest on the Bonds become includable in gross income for federal income tax purposes, the Bonds are not subject to early redemption as a result of such occurrence and will remain outstanding until maturity or until otherwise redeemed in accordance with the Indenture.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Bond Owners from realizing the full current benefit of the tax status of such interest. Legislative proposals are announced from time to time which generally would limit the exclusion from gross income of interest on obligations like the Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Bonds. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Bond Counsel's opinion may be affected by action taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds. Bond Counsel has not undertaken to determine, or to inform any person, whether any such action or events are taken or do occur, or whether such actions or events may adversely affect the value or tax treatment of a Bond, and Bond Counsel expresses no opinion with respect thereto.

The Internal Revenue Service (the "IRS") has initiated an expanded program for auditing tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit (or by an audit of similar bonds).

Although Bond Counsel has rendered an opinion that interest on the Bonds is excluded from gross income for federal income tax purposes provided the District continues to comply with certain requirements of the Code, the accrual or receipt of interest on the Bonds may otherwise affect the tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status and other items of income or deductions. Bond Counsel expresses no opinion regarding any such consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the Bonds.

A copy of the proposed form of Bond Counsel opinion is attached hereto as Appendix E.

### **NO LITIGATION**

[There is no action, suit, or proceeding pending or, to the best knowledge of the District, threatened at the present time restraining or enjoining the delivery or in any way contesting or affecting the validity of the Bonds, the Indenture or the proceedings of the District taken with respect to the execution or delivery thereof.

Except as otherwise described herein, there is no action, suit or proceeding known to be pending or threatened against the District contesting or affecting the ability of the District to collect amounts from which debt service on the Bonds are payable, or which would have a material adverse effect on the District, including the District's ability to pay debt service on the Bonds.]

### **RATINGS**

It is anticipated that S&P Global Ratings ("S&P") will assign its municipal bond rating of "\_\_\_" to the Bonds. S&P has also assigned an underlying municipal bond rating of "\_\_\_" to the Bonds. These ratings reflect only the views of S&P, and an explanation of the significance of such ratings may be obtained from S&P.

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

### **MUNICIPAL ADVISOR**

The District has retained Wulff, Hansen & Co., San Rafael, California as municipal advisor (the "Municipal Advisor") in connection with the structuring, marketing and pricing of the Bonds. The Municipal Advisor has reviewed this Official Statement but makes no guaranty, warranty or other representation respecting the accuracy and completeness of the information contained herein.

### **SALE OF THE BONDS**

The Bonds were sold by competitive bid on \_\_\_\_\_, 2024. The Bonds were awarded to \_\_\_\_\_ (the "Underwriter"), who submitted the lowest true interest cost bid, at a purchase price of \$\_\_\_\_\_. Under the terms of its bid, the Underwriter will be obligated to purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to the approval of certain legal matters by Bond Counsel, and certain other conditions to be satisfied by the Bonds.

The Underwriter has provided the reoffering prices or yields for the Bonds set forth on the inside cover of this Official Statement, and the District undertakes no responsibility for the accuracy of those prices or yields. Based on the reoffering prices, the original issue premium on the reoffering of the Bonds is \$\_\_\_\_\_ and the Underwriter's gross compensation (or "spread") is \$\_\_\_\_\_.

**MISCELLANEOUS**

Any statement in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Holders of any of the Bonds.

The preparation and distribution of this Official Statement has been duly authorized by the District.

FALLBROOK PUBLIC UTILITY DISTRICT

By: \_\_\_\_\_

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## APPENDIX A

### GENERAL INFORMATION ABOUT FALLBROOK AND SAN DIEGO COUNTY

The following information is included only for the purpose of supplying general information regarding the unincorporated community of Fallbrook and the County of San Diego (the “County”). This information is provided only for general informational purposes and provides prospective investors limited information about this region and its economic base. The Bonds are not a debt of the State, the County or any of its political subdivisions, and neither the State, the County nor any of its political subdivisions is liable therefor.

The County. The County is the southern-most county in California. The County covers an area of approximately 4,280 square miles, about the size of the state of Connecticut. The County is bordered by the Pacific Ocean to the west, Orange and Riverside Counties to the north, Imperial County to the east, and the State of Baja California, Mexico to the south. The County includes 70 miles of the Pacific Ocean coastline, the Anza-Borrego Desert, which forms the eastern third of the county, the Laguna Mountains, the San Diego Bay, one of the world’s largest natural deep-water harbors, and the San Diego International Airport.

The County possesses a diverse economic base consisting of electronics manufacturing and shipbuilding, tourism, biotech and software development, and defense-related industries. The County is also growing as a center for culture and education. Over 30 recognized art organizations including the San Diego Opera, the Old Globe Theater productions, the La Jolla Chamber Orchestra, as well as museums and art galleries, are located in the County.

The County was incorporated on February 18, 1850 and functions under a charter adopted in 1933 and is amended from time to time. The County is governed by a five-member Board of Supervisors elected to four-year terms in district nonpartisan elections. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. Elected officials include the Assessor/County Clerk/Recorder, District Attorney, Sheriff and Treasurer/Tax Collector.

#### Population

The following sets forth the County and the State population estimates as of January 1 for the years 2019 to 2023.

#### SAN DIEGO COUNTY AND STATE OF CALIFORNIA Estimated Population

<b>Year (January 1)</b>	<b>San Diego County</b>	<b>State of California</b>
2019	3,333,319	39,605,361
2020	3,298,634	39,538,223
2021	3,283,113	39,286,510
2022	3,275,435	39,078,674
2023	3,269,755	38,940,231

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

#### Industry and Employment

The District is included in the San Diego-Carlsbad Metropolitan Division, which includes all of the County. The unemployment rate in San Diego County was 4.2 percent in November 2023, unchanged from a revised 4.2 percent in October 2023, and above the year-ago estimate of 3.3 percent. This compares with an unadjusted unemployment rate of 4.9 percent for California and 3.5 percent for the nation during the same period.

Set forth below is data from 2018 to 2022, reflecting the County’s civilian labor force, employment and unemployment.

**SAN DIEGO-CARLSBAD MSA  
(San Diego County)  
Annual Average Labor Force, Employment and Unemployment,  
Unemployment by Industry  
(March 2022 Benchmark)**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Civilian Labor Force <sup>(1)</sup>	1,579,800	1,583,600	1,547,300	1,547,800	1,589,600
Employment	1,526,600	1,532,200	1,401,900	1,447,500	1,534,800
Unemployment	53,200	51,400	145,400	100,300	54,700
<b>Unemployment Rate</b>	<b>3.4%</b>	<b>3.2%</b>	<b>9.4%</b>	<b>6.5%</b>	<b>3.4%</b>
Agriculture	9,300	9,700	9,200	9,000	9,500
Mining and Logging	400	400	300	300	400
Construction	83,700	84,000	81,300	83,800	87,400
Manufacturing	112,300	115,700	113,800	114,400	117,400
Wholesale Trade	43,800	44,000	41,300	42,100	43,800
Retail Trade	147,900	145,600	133,200	137,600	138,300
Transportation, Warehousing and Utilities	33,300	34,300	33,300	37,100	40,200
Information	23,600	23,500	22,100	21,500	22,000
Finance and Insurance	46,700	46,400	46,200	46,800	46,100
Real Estate and Rental and Leasing	29,300	30,200	28,600	29,400	30,900
Professional and Business Services	249,000	255,800	248,300	265,300	285,200
Private Educational and Health Services	208,900	216,600	210,900	216,700	227,600
Leisure and Hospitality	199,600	201,700	144,800	161,600	193,400
Other Services	55,500	56,400	44,800	47,500	54,500
Federal Government	47,100	47,600	48,600	47,700	47,000
State Government	50,700	50,400	48,200	51,000	55,500
Local Government	150,300	150,600	140,200	139,200	144,300
<b>Total, All Industries <sup>(2)</sup></b>	<b>1,491,400</b>	<b>1,512,800</b>	<b>1,395,000</b>	<b>1,451,100</b>	<b>1,543,700</b>

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

(2) Totals may not add due to rounding.

Source: State of California Employment Development Department.

## Largest Employers

The largest manufacturing and non-manufacturing employers as of December 2023 in the County are shown below, in alphabetical order.

### SAN DIEGO COUNTY Largest Employers December 2023

<b>Employer Name</b>	<b>Location</b>	<b>Industry</b>
32nd St Naval Station	San Diego	Federal Government-National Security
Collins Aerospace	Chula Vista	Aircraft Components-Manufacturers
General Dynamics Nassco	San Diego	Ship Builders & Repairers (mfrs)
Illumina Inc	San Diego	Biotechnology Products & Services
Kaiser Permanente Vandever Med	San Diego	Physicians & Surgeons
MCCS MCRD SN DIEGO-MRNE CORPS	San Diego	Military Bases
Merchants Building Maintenance	San Diego	Janitor Service
Page One Seo	San Diego	Mental Health Services
Rady Children's Hospital	San Diego	Hospitals
San Diego Community College	San Diego	Junior-Community College-Tech Institutes
San Diego County Sheriff	Santee	Police Departments
Scripps Mercy Hosp Sn Diego	San Diego	Hospitals
Scripps Research Institute	La Jolla	Laboratories-Research & Development
SDG & E	San Diego	Gas Companies
Seaworld San Diego	San Diego	Amusement & Theme Parks
Sharp Grossmont Hospital	La Mesa	Hospitals
Sharp Grossmont Rehab Ctr	La Mesa	Vocational Rehabilitation Services
Sharp Mary Birch Hosp	San Diego	Hospitals
Sharp Memorial Hospital	San Diego	Hospitals
Sony Electronics Inc	San Diego	Electronic Equipment & Supplies-Retail
UC San Diego Health	San Diego	Health Care Management
Ucsd-Neural Computation	La Jolla	University-College Dept/Facility/Office
University of California	La Jolla	University-College Dept/Facility/Office
University-California Sn Diego	La Jolla	Schools-Universities & Colleges Academic
VA San Diego Healthcare System	San Diego	Hospitals

Source: California State Employment Development Department, extracted from the America's Labor Market Information System (ALMIS) Employer Database, 2024 1st Edition.

## Commercial Activity

A summary of historic taxable sales within the County during the past five years in which data is available is shown in the following table. Total taxable sales during 2022 in the County were reported to be \$80,699,960,953 a 11.92% increase over the total taxable sales of \$71,714,654,866 in 2021.

**SAN DIEGO COUNTY**  
**Taxable Retail Sales**  
**Number of Permits and Valuation of Taxable Transactions**  
**(Dollars in thousands)**

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2018	59836	\$41,886,824,903	100674	\$59,041,041,69
2019	59447	42,816,938,431	101901	61,365,277,203
2020	62897	41,336,898,119	109428	58,814,527,896
2021	55683	49,891,084,243	98392	71,714,654,866
2022	25590	55,405,593,930	101259	80,699,960,953

Source: State Department of Tax and Fee Administration.

## Transportation

Surface, sea and air transportation facilities serve County residents and businesses. Interstate 5 parallels the coast from Mexico to the Los Angeles Area and points north. Interstate 15 runs inland, leading the Riverside-San Bernardino, Las Vegas, and Salt Lake City. Interstate 8 runs eastward through the southern United States.

San Diego's International Airport (Lindbergh Field) is located approximately one mile west of the downtown area at the edge of San Diego Bay. The facilities are owned and maintained by the San Diego Unified Port District and are leased to commercial airlines and other tenants. The airport is California's third most active commercial airport, served by 21 major airlines. In addition to San Diego International Airport, there are several general aviation airports located in the County, including McClellan-Palomar Airport in Encinitas.

Public transit in the metropolitan area is provided by the Metropolitan Transit

Development Board. The San Diego Trolley, developed by the Metropolitan Transit

Development Board beginning in 1979, has been expanded. A total of 17.6 miles were added to the original 108 miles; construction was completed in 1990.

San Diego is the terminus of the Santa Fe Railway's main line from Los Angeles. Amtrak passenger service is available at San Diego, with stops at Solana Beach and Oceanside in the North County.

San Diego's harbor is one of the world's largest natural harbors. The Port of San Diego is administered by the San Diego Unified Port District, which includes the cities of San Diego, National City, Chula Vista, Imperial Beach and Coronado.

**APPENDIX B**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**APPENDIX C**

**SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

## APPENDIX D

### BOOK-ENTRY SYSTEM

The information in this Appendix D concerning DTC and its book-entry system has been obtained from sources that the District believe to be reliable, but the District take no responsibility for the accuracy thereof.

#### General

The Depository Trust Company (“DTC”) will act as securities depository for the Bonds. The 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 certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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 S&P Global Ratings 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.org](http://www.dtcc.org). The information on such website is not incorporated by reference herein.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each 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 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all 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 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 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose

accounts such 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.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the 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 a 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 nor its nominee, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest 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.

DTC may discontinue providing its services as depository with respect to the 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, bond certificates are required to be printed and delivered.

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



## APPENDIX E

### FORM OF BOND COUNSEL OPINION

\_\_\_\_\_, 2024

Board of Directors  
Fallbrook Public Utility District  
990 E Mission Road  
Fallbrook, California 92028

OPINION: \$\_\_\_\_\_ Fallbrook Public Utility District 2024 Water Revenue Bonds

Members of the Board of Directors:

We have acted as bond counsel to the Fallbrook Public Utility District (the “District”) in connection with the issuance by the District of its \$\_\_\_\_\_ Fallbrook Public Utility District 2024 Water Revenue Bonds (“Bonds”), under the provisions of Articles 6 of Chapter 4 of Division 7 of the Public Utilities Code, commencing with Section 16575 of said Code (the “Bond Law”) and under an Indenture of Trust dated as of \_\_\_\_\_ 1, 2024 (the “Indenture”), between the District and U.S. Bank National Association, as trustee, approved by a resolution of the Board of Directors of the District adopted on \_\_\_\_\_, 2024. We have examined the Bond Law, an executed copy of the Indenture and such certified proceedings and other papers as we deem necessary to render this opinion.

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

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

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

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

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

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

5. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. The opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Indenture to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

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

We express no opinion regarding other federal tax consequences arising with respect to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on the Bonds.

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

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

Respectfully submitted,

## APPENDIX F

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

§ \_\_\_\_\_  
**FALLBROOK PUBLIC UTILITY DISTRICT**  
**2024 Water Revenue Bonds**

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the Fallbrook Public Utility District (the “District”) in connection with the issuance of the above-referenced bonds (the “Bonds”). The Bonds are being issued under the provisions of Articles 6 of Chapter 4 of Division 7 of the Public Utilities Code, commencing with Section 16575 of said Code and an Indenture of Trust, dated as of \_\_\_\_\_ 1, 2024 (the “Indenture”), between the District and U.S. Bank National Association, as trustee.

The District covenants and agrees as follows:

**SECTION 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the District for the benefit of the Bondholders or Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

**SECTION 2. Definitions.** In addition to the definitions set forth 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 tax purposes.

“Dissemination Agent” shall mean U.S. Bank National Association, or any successor Dissemination Agent designated by the District.

“Financial Obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “financial obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Fiscal Year” means the fiscal year of the District.

“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.

“Official Statement” shall mean the Official Statement relating to the Bonds, dated \_\_\_\_\_, 2024.

“Participating Underwriter” shall mean the original purchasers of the Bonds required to comply with the Rule in connection with offering 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.

“State” shall mean the State of California.

**SECTION 3. Provision of Annual Reports.**

(a) The District shall, or shall cause the Dissemination Agent to, not later than each March 1 after the end of each Fiscal Year (presently such Fiscal Year ends June 30) or the next succeeding business day if that day is not business day, commencing with the report for the fiscal year ending June 30, 2024, which shall be due March 1, 2025, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Fiscal Year changes, the District shall give notice of such change in the same manner as for a Listed Event under Section 5(b).

(b) Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall send, in a timely manner, a notice to the MSRB in substantially the form attached as Exhibit A.

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

**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 prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

Beginning with the fiscal year ending June 30, 2024, and each fiscal year thereafter during which the Bonds are outstanding, the District shall include in its audited financial statements a “Schedule of Operating and Non-Operating Income and Expenses” for the Water Fund. The line items included in the “Schedule of Operating and Non-Operating Income and Expenses” shall correspond, to the extent applicable, to the line items included in the updates to Table 12 referred to below.

(b) An update as of the most recently ended Fiscal Year of the District to the information set forth in the following tables in the Official Statement for the most recently-completed Fiscal Year only, to the extent not included in the comprehensive annual financial report:

- Table 1 (Number and Type of Water Connections)
- Table 2 (Ten Largest Customers)
- Table 3 (Water Production)
- Table 5 (Monthly Water Service Charges)
- Table 10 (Revenues, Expenses and Debt Service Coverage – for the most recently completed Fiscal Year only)

(c) Any rate increases that became effective on January 1 of the preceding the filing of the Annual Report.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to each of 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 Indenture or its obligations in relation to the Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to the rights of Bondholders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the District;
- (13) Consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (15) Incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and
- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties.

(b) If a Listed Event occurs, the District shall provide, in a timely manner and in no event in excess of ten (10) Business Days after the occurrence of such Listed Event, notice of such Listed Event with the MSRB.

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

SECTION 7. Dissemination Agent. The District will serve as the initial Dissemination Agent hereunder. The District may, from time to time, appoint or engage a different Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate.

SECTION 8. 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 Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 9. Default. In the event of a failure of the District or the Dissemination Agent to comply with any provision of this Disclosure Certificate, the sole legal remedy of any Bondholder or Beneficial Owner of the Bonds or the Participating Underwriter shall be an action to compel performance. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture.

No Bondholder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the District satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the District shall have refused to comply therewith within a reasonable time.

SECTION 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, suit, claim, cost, damages, judgment, 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 and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Dissemination Agent shall be afforded the same rights, protections and immunities hereunder afforded to it as Trustee under the Indenture.

It is understood and agreed that any information that the Dissemination Agent may be instructed to file with the MSRB shall be prepared and provided to it by the District. The Dissemination Agent has undertaken no responsibility with respect to any reports, notices or disclosures provided to it under this Disclosure Certificate, and has no liability to any person, including any holder of Bonds, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the District shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition except as may be provided by written notice from the District.

SECTION 11. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver

is permitted by the Rule, taking into account any subsequent change in or interpretation of the Rule. In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the same manner as for a Listed Event under Section 5(b). The District shall obtain the consent of the Dissemination Agent for any amendment of the Disclosure Certificate that affects the duties, rights, protections or obligations of the Dissemination Agent.

SECTION 12. Transmission of Notices, Documents and Information.

(a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the MSRB's Electronic Municipal Markets Access (EMMA) system, the current Internet Web address of which is [www.emma.msrb.org](http://www.emma.msrb.org).

(b) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

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

SECTION 14. Governing Law. The provisions of this Disclosure Certificate shall be governed by and construed in accordance with the laws of the State of California.

Dated: \_\_\_\_\_, 2024

FALLBROOK PUBLIC UTILITY DISTRICT

By: \_\_\_\_\_  
Authorized Representative

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: Fallbrook Public Utility District

Name of Bond Issue: \$\_\_\_\_\_ Fallbrook Public Utility District 2024 Water Revenue Bonds

Date of Issuance: \_\_\_\_\_, 2024

NOTICE IS HEREBY GIVEN that an Annual Report with respect to the above-named Bonds was not released by the District by the date required in the Continuing Disclosure Certificate. [The District anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_, 20\_\_

FALLBROOK PUBLIC UTILITY DISTRICT

By: \_\_\_\_\_



**M E M O**

**TO:** Fiscal Policy and Insurance (FP&I) Committee  
**FROM:** David Shank, Assistant General Manager/CFO  
**DATE:** January 16, 2024  
**SUBJECT:** Funding Source for Final Detachment Payment

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Purpose

Review with the Committee funding options for the final \$6.8 million payment to San Diego County Water Authority (SDCWA) scheduled in March of 2024. The first payment of \$1.7 million was made in late December 2023.

Summary

The District's final payment to SDCWA and due date are part of the detachment settlement agreement. Staff consulted with both legal and financial advisors to determine if this expenditures meets the IRS guidelines for tax-exempt funding. At this time, the consensus is that it does not and would have to be funded with taxable debt, which carries a significantly higher interest rate than tax-exempt does. Rather than issue taxable debt and pay the premium over tax-exempt rates, the District has chosen to fund the SDCWA payment from Water System reserves. To offset the use of Water System reserves, staff are recommending a \$12 million bond issuance to fund Water System Capital Projects. The amount proposed would provide just under two years of Water System CIP funding. With the Water System CIP funded from debt proceeds, the Water System reserves can be replenished.

Based upon current projections of the liquidity fund balance, staff are projecting a \$2.8 million to \$3.8 million shortfall. This projection takes into account the reimbursement of Water System CIP expenditures from debt proceeds as well as operating expenditures, including the SMCUP debt service payment of \$3.1 million in February. In order to provide sufficient funds to both maintain the District's operational liquidity and fund the payment to SDCWA, staff have identified three potential funding sources.

1. Long-term Reserves – Currently fully invested in fixed income investments and there are no maturing investment to utilize. This would require the liquidation of investments and disrupt the investment strategy.
2. PARS Pension Fund – The District can reimburse itself for pension expenditures for the last two fiscal years from the fund. This amount is approximately \$3.5 million and would lower the funded ratio of the pension to approximately 81% from 87%.
3. PARS OPEB Trust – The District can reimburse itself from the OPEB fund for OPEB expenditures incurred. Because the OPEB expenditures include things like the cost impact of retirees being included in the District's insurance pool, it is

determined at year end so only last year's expenditures can be included at this time. The cost last year as \$124,925, which would bring the OPEB funding level to 73% from 82%

- a. It should be noted that this funding level does not reflect the actuarial impact of eliminating OPEB for new hires effective 7/1/2022, which is expected to drastically change the District's OPEB liability.

It is important to keep in mind that the Board can replenish the reserves used to bridge fund the detachment payment. With the Water CIP funded with debt proceeds, there is an opportunity next year to budget a larger annual deposit into the pension fund and replenish reserves levels. Staff will also continue efforts to find a way to qualify this expenditures for tax exempt funding.

Recommended Action

Discussion item no action is required.

MEMO

**TO:** Fiscal Policy and Insurance Committee  
**FROM:** David Shank, Assistant General Manager/CFO  
**DATE:** January 16, 2024  
**SUBJECT:** Mid-Year Operating Budget Update

Purpose

Provide the Committee with a mid-year Operating Budget expenditures update to evaluate the District’s financial performance for the first half of the year and identify any potential budget overages.

Summary

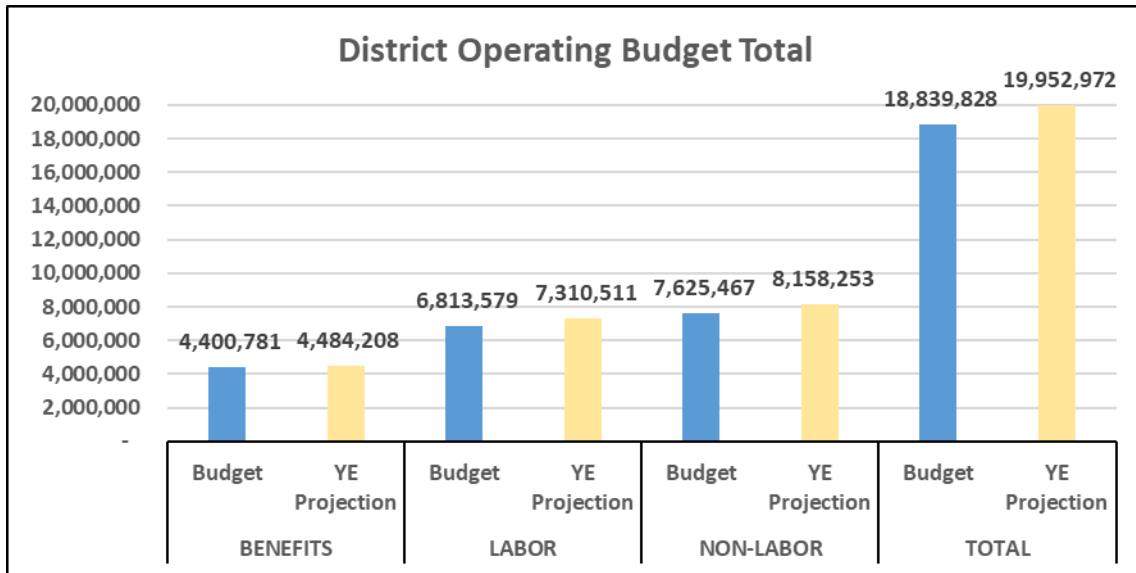
With the first half of the fiscal year complete, a detailed analysis of the District’s operating and capital spending levels and trends was prepared for the Committee. The goal of this analysis is to update year-end projected expenditures and compare them to the Budget. The year-end projections are updated based upon discussions and input from the various District managers. The table below shows the breakdown of the District’s operating expenditures.

District Operating Budget Total								
	BENEFITS		LABOR		NON-LABOR		TOTAL	
	Budget	YE Projection	Budget	YE Projection	Budget	YE Projection	Budget	YE Projection
		<b>4,400,781</b>	<b>4,484,208</b>	<b>6,813,579</b>	<b>7,310,511</b>	<b>7,625,467</b>	<b>8,158,253</b>	<b>18,839,828</b>
<i>Variance</i>	(83,427)	-1.9%	(496,931)	-7.3%	(532,786)	-7.0%	(1,113,144)	-5.9%

Overall, projected year-end operating expenditures are just over budget with an Operating Budget shortfall of \$1,113,144 or 5.9% over budget.

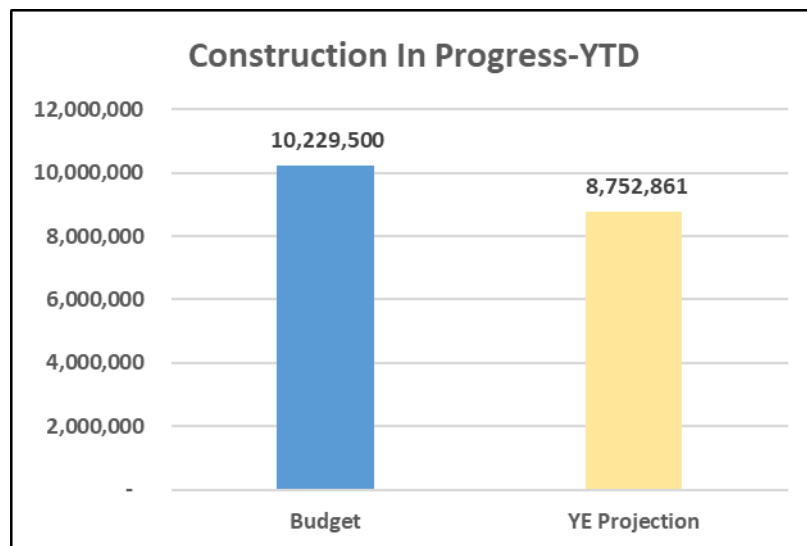
- **Benefits:** Projected year-end Benefit expenditures are in line with the Budget.
- **Labor:** The labor overage is driven by leak repair activities, this includes overtime costs. The projections include an increase of \$325,000 in operating labor that was budgeted for to capital projects. Overtime is also projected to be \$125,000 over budget due to continued emergency repair activities. The remaining overage is being driven by less than budgeted salary savings.
- **Non-Labor:** Non-labor costs related to detachment are \$300,000 over budget. Paving costs related to leak repairs are projected to be \$100,000 over budget. The remainder is largely due to higher than budgeted chemical costs for water treatment.

The cost of water is excluded from this but is on track to be under budget due to sales. Annual water sales are on track to be at the low end of historic sales levels. Because debt service payments are scheduled, the payments are equal to the budgeted amount. Both of these items are shown in the District’s Budget Status Report each month.



Attachment A provides a summary of Administrative, Water, Wastewater and Recycled Water Services Operating Expenditures. This provides summary level data on each of the Services and the spending pattern. Staff will continue to monitor expenditures and keep the Committee and Board up to date on any emerging trends.

The updated Capital Improvement Project (CIP) projected expenditures are shown below. Most CIP projects are expected to be completed within the allocated budget. The lower projection is due to long lead times on the planned scrubber replacement at the Reclamation Plant and the EV charging station equipment for the yard. These projects will not be completed until next fiscal year.



Recommended Action

This item is for discussion only. No action is required.

## Attachment A

Fiscal Year 2023-24 Mid-Year Budget

<b>District Operating Budget Total</b>				
	<b>Budget</b>	<b>YE Projection</b>	<b>Variance</b>	<b>Variance %</b>
<b>LABOR</b>	6,813,579	7,310,511	(496,931)	-7.3%
<b>NON-LABOR</b>	7,625,467	8,158,253	(532,786)	-7.0%
<b>BENEFITS</b>	4,400,781	4,484,208	(83,427)	-1.9%
<b>TOTAL</b>	<b>18,839,828</b>	<b>19,952,972</b>	<b>(1,113,144)</b>	<b>-5.9%</b>

- Over Budget-Labor
  - \$325K – CIP underutilized due to emergency leak repairs
  - \$125K– OT/DT hours projected over budget due to emergency leak repairs
  - Vacancies savings under budget
- Over Budget-Non-Labor
  - \$300K – Detachment related costs
  - \$100K– Warehouse & Vehicles-Emergency leak repairs, unexpected vehicle maintenance and price escalation
  - \$100K – Paving for emergency leak repairs projecting over budget
  - Chemicals for SMGTP projecting over budget
- Over Budget-Benefits
  - \$200K – More benefits allocated to Ops; following labor hours

<b>Operating Budget-Administrative Services</b>				
	<b>Budget</b>	<b>YE Projection</b>	<b>Variance</b>	<b>Variance %</b>
<b>LABOR</b>	2,947,047	2,973,885	(26,838)	-0.9%
<b>NON-LABOR</b>	3,083,575	3,487,879	(404,304)	-13.1%
<b>BENEFITS</b>	1,903,450	1,901,859	1,591	0.1%
<b>TOTAL</b>	<b>7,934,072</b>	<b>8,363,623</b>	<b>(429,551)</b>	<b>-5.4%</b>

➤ Over Budget-Non-Labor

- \$300K – Detachment related costs
- \$100K– Warehouse & Vehicles-Emergency leak repairs, unexpected vehicle maintenance and price escalation

<b>Operating Budget-Water Services</b>				
	<b>Budget</b>	<b>YE Projection</b>	<b>Variance</b>	<b>Variance %</b>
<b>LABOR</b>	2,068,956	2,631,007	(562,051)	-27.2%
<b>NON-LABOR</b>	2,450,856	2,657,220	(206,364)	-8.4%
<b>BENEFITS</b>	1,337,251	1,552,020	(214,769)	-16.1%
<b>TOTAL</b>	<b>5,857,063</b>	<b>6,840,248</b>	<b>(983,184)</b>	<b>-16.8%</b>

➤ Over Budget-Labor

- \$325K – CIP underutilized due to emergency leak repairs
- \$125K– OT/DT hours projecting over budget due to emergency leak repairs

➤ Over Budget-Non-Labor

- \$100K – Paving for emergency leak repairs
- \$100K– Chemicals for SMGTP projecting over budget

➤ Over Budget-Benefits

- \$200K – More benefits allocated to water; following labor hours



<b>Operating Budget-Wastewater Services</b>				
	<b>Budget</b>	<b>YE Projection</b>	<b>Variance</b>	<b>Variance %</b>
<b>LABOR</b>	1,536,968	1,477,054	59,914	3.9%
<b>NON-LABOR</b>	1,329,000	1,278,346	50,654	3.8%
<b>BENEFITS</b>	992,703	906,384	86,319	8.7%
<b>TOTAL</b>	<b>3,858,671</b>	<b>3,661,783</b>	<b>196,887</b>	<b>5.1%</b>

- Savings- Labor & Benefits
  - Labor allocated to water
- Savings-Non-Labor
  - Utility savings and temp labor savings

<b>Operating Budget-Recycled Water Services</b>				
	<b>Budget</b>	<b>YE Projection</b>	<b>Variance</b>	<b>Variance %</b>
<b>LABOR</b>	259,144	227,100	32,044	12.4%
<b>NON-LABOR</b>	217,500	190,272	27,228	12.5%
<b>BENEFITS</b>	167,377	123,946	43,431	25.9%
<b>TOTAL</b>	<b>644,021</b>	<b>541,318</b>	<b>102,703</b>	<b>15.9%</b>

- Savings- Labor
  - Labor directed to emergency pipeline repairs
- Savings-Non-Labor
  - Utility savings
- Savings- Benefits
  - More benefits allocated to water; following labor hours

<b>Operating Budget-Community Benefit Program</b>				
	<b>Budget</b>	<b>YE Projection</b>	<b>Variance</b>	<b>Variance %</b>
<b>LABOR</b>	1,464	1,464	-	0.0%
<b>NON-LABOR</b>	544,536	544,536	-	0.0%
<b>TOTAL</b>	<b>546,000</b>	<b>546,000</b>	-	<b>0.0%</b>

➤ No expenditures have hit this year