

In the opinion of Stradling, Yocca, Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Special Counsel"), under existing statutes, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and compliance with certain covenants in the Installment Purchase Agreement (defined hereinafter), the Trust Agreement (defined hereinafter) and the requirements of the Internal Revenue Code of 1986, as amended (the "1986 Code"), the portion of each Installment Purchase Payment (defined hereinafter) constituting interest is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, the portion of each Installment Purchase Payment constituting interest is exempt from California personal income taxes. In addition, the difference between the initial public offering price of a Certificate and the amount payable at maturity with respect to a Certificate constitutes original issue discount, and the amount of original issue discount that accrues to the owner of the Certificate is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or corporations, and is exempt from California personal income tax. See "TAX EXEMPTION" herein.

\$16,100,000
CERTIFICATES OF PARTICIPATION
(LITTLEROCK DAM PROJECT)
SERIES 1993A

Evidencing Proportionate Interests of the Owners
 Thereof in Installment Purchase Payments to be Made by the
PALMDALE WATER DISTRICT
(Los Angeles, County, California)
 as the Purchase Price for Certain Property Pursuant to an
 Installment Purchase Agreement with the
 Palmdale Water District Public Facilities Corporation
 a California Public Benefit Non-Profit Corporation

Dated: March 1, 1993

Due: October 1, as shown below

The Certificates (defined hereinafter) are being issued to provide moneys for: (i) the costs of certain capital improvements to the Littlerock Dam (the "Project"), (ii) the cost of the municipal bond insurance policy premium, (iii) the funding of interest due with respect to the Certificates to April 1, 1995, (iv) the funding of a debt service reserve fund and (v) the costs of issuing the Certificates.

The Certificates will be issued in book-entry form, initially registered in the name of Cede & Co., New York, New York as nominee of The Depository Trust Company ("DTC"), New York, New York. Interest due with respect to the Certificates is payable semiannually on October 1 and April 1 (each an "Interest Payment Date"), of each year until their respective stated maturity dates, commencing on October 1, 1993. Purchasers will not receive certificates representing their interest in the Certificates. Individual purchases will be in principal amounts of \$5,000 or in any integral multiples thereof. Payments of principal and interest will be paid by State Street Bank and Trust Company of California, N.A., Los Angeles, California, as trustee, registrar and paying agent (the "Trustee") to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Certificates. See "APPENDIX E — Book-Entry Only System" hereto.

The Certificates are subject to prepayment and redemption prior to maturity. See "THE CERTIFICATES — Redemption" herein.

The District is required under the Installment Purchase Agreement to make Installment Purchase Payments from Net Revenues (defined hereinafter) of the District. Installment Purchase Payments are scheduled in amounts sufficient to pay, when due, the annual principal and interest with respect to the Certificates. The District has covenanted under the Installment Purchase Agreement to set rates and charges to its customers which will insure Net Revenues equal to at least 110% of the annual principal and interest payments due with respect to the Certificates and the annual principal and interest payments due with respect to any parity obligations in each year.

Payment of the principal of, and interest due with respect to the Certificates will be insured by a municipal bond insurance policy issued by MUNICIPAL BOND INVESTORS ASSURANCE CORPORATION simultaneously with the delivery of the Certificates. See "CERTIFICATE INSURANCE" herein.

MBIA

The obligation of the District to make Installment Purchase Payments does not constitute an obligation 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. The obligation of the District to make Installment Purchase Payments under the Installment Purchase Agreement does not constitute a debt or indebtedness of the District, the City of Palmdale, the County of Los Angeles, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

The District has previously incurred certain obligations that are outstanding and that are secured by and payable from Net Revenues on a basis equal to the Installment Purchase Payments. See "THE DEBT STRUCTURE OF THE DISTRICT — Parity Obligations" herein.

This cover page contains certain information for general reference only. It is not a summary of this financing. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

MATURITY SCHEDULE

Maturity (October 1)	Principal Amount	Interest Rate	Yield	Maturity (October 1)	Principal Amount	Interest Rate	Yield
1996	\$275,000	3.75%	3.75%	2004	\$390,000	5.00%	5.15%
1997	290,000	4.00	4.10	2005	410,000	5.10	5.25
1998	300,000	4.10	4.25	2006	430,000	5.25	5.35
1999	310,000	4.35	4.45	2007	455,000	5.25	5.40
2000	325,000	4.50	4.65	2008	480,000	5.30	5.45
2001	340,000	4.75	4.85	2009	505,000	5.40	5.50
2002	355,000	4.90	5.00	2010	530,000	5.50	5.60
2003	375,000	5.00	5.10				

\$4,640,000 5.60% Term Certificates Due October 1, 2017 price: 98%

\$5,690,000 5.75% Term Certificates Due October 1, 2023 price: 99.5%

(Plus accrued interest from March 1, 1993)

The certificates are offered when, as and if issued and received by the A.G. Edwards & Sons, Inc. (the "Underwriter"), subject to the approval as to their legality by Stradling, Yocca, Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by Nossaman, Guthner, Knox & Elliott, Los Angeles, California and for the District by Lagerlof, Senecal, Drescher & Swift, Pasadena, California. It is anticipated that the Certificates in definitive form will be available for delivery to DTC in New York, New York on or about March 31, 1993.

A.G. Edwards & Sons, Inc.

Dated: March 23, 1993

No dealer, broker, salesperson or other person has been authorized by the District or Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the District or Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Certificates. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been obtained from sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter. The information and expression of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the District since the date hereof. All summaries of the Installment Purchase Agreement and the Trust Agreement, or other documents, are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions.

This Official Statement is submitted in connection with the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, of any other purposes.

THE CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE CERTIFICATES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAW OF ANY STATE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOUT THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PALMDALE WATER DISTRICT
Los Angeles County, California

BOARD OF DIRECTORS

Leslie O. Carter, President
John M. Sidwell, Vice President
Nolan Negaard, Secretary
J.B. Freeman, Assistant Secretary
Walter M. Dahlitz, Director

STAFF

Harold M. Fones, General Manager
Dennis D. LaMoreaux, Assistant Engineer-Manager
David J. Myers, Business Manager

Professional Services

FINANCIAL ADVISOR

Fieldman, Rolapp & Associates
Irvine, California

DISTRICT COUNSEL

Lagerlof, Senecal, Drescher & Swift
Pasadena, California

SPECIAL COUNSEL

Stradling, Yocca, Carlson & Rauth
Newport Beach, California

**CERTIFIED PUBLIC ACCOUNTANT
TO THE DISTRICT**

Egan & Egan
Canoga Park, California

TRUSTEE

State Street Bank and Trust Company
of California, N.A.
Los Angeles, California
(213) 362-7345

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OFFICIAL STATEMENT

\$16,100,000
CERTIFICATES OF PARTICIPATION
(LITTLEROCK DAM PROJECT)
SERIES 1993A

Evidencing Proportionate Interest of the Owners
Thereof in Installment Purchase Payments to be Made by the
PALMDALE WATER DISTRICT
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Installment Purchase Agreement with the
Palmdale Water District Public Facilities Corporation
a California Public Benefit Non-Profit Corporation

INTRODUCTION

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, this Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A complete review should be made of the entire Official Statement. The offering of the Certificates of Participation (Littlerock Dam Project), Series 1993A (the "Certificates") is made only by means of this Official Statement.

This Official Statement, which includes the cover page, table of contents and appendices, provides certain information concerning the offering of, the Certificates in the aggregate principal amount of \$16,100,000, representing the direct and proportionate interests of the registered owners thereof (collectively, the "Owners") in payments to be made by the Palmdale Water District (the "District"), located in the County of Los Angeles (the "County"), State of California (the "State"), as the purchase price for the Project (defined hereinafter) pursuant to an installment purchase agreement, by and between the District and the Palmdale Water District Public Facilities Corporation (the "Corporation") dated as of March 1, 1993 (the "Installment Purchase Agreement"). The Certificates are being issued to provide moneys for (i) the costs of certain capital improvements to the Littlerock Dam (the "Project"), (ii) the cost of the municipal bond insurance policy premium, (iii) the funding of interest due with respect to the Certificates to April 1, 1995, (iv) the funding of a debt service reserve fund and (v) the costs of issuing the Certificates.

The Certificates are being issued pursuant to a trust agreement by and among the District, the Corporation and State Street Bank and Trust Company of California, N.A., Los Angeles, California, as trustee, registrar and paying agent (the "Trustee") dated as of March 1, 1993 (the "Trust Agreement"). The principal and interest due with respect to the Certificates will be paid from installment purchase payments made by the District, as purchaser, to the Corporation, as seller, pursuant to the Installment Purchase Agreement (the "Installment Purchase Payments"). Payment of the Certificates and interest due with respect thereon will be additionally secured by an assignment agreement by and between the Corporation and the Trustee dated as of March 1, 1993 (the "Assignment Agreement"), whereby the Corporation has assigned to the Trustee, for the benefit of the Owners, (i) its right to amounts payable by the District under the Installment Purchase Agreement, (ii) its rights to receive Net Proceeds (defined hereinafter) from any condemnation or insurance award in connection with the Project and (iii) its rights to enforce amounts payable upon default.

The Certificates are issuable in book-entry only form without coupons, in the denominations of \$5,000 each or any integral multiple thereof. The principal and interest due with respect to the

Certificates will be paid directly to Cede & Co. by the Trustee as long as DTC (defined hereinafter), or its nominee, Cede & Co. is the registered owner of the Certificates. See "**APPENDIX E - Book-Entry Only System**" hereto.

The District is required to pay to the Trustee, from Net Revenues (defined hereinafter) of the District, Installment Purchase Payments which are designed to be sufficient in both time and amount to pay, when due, the principal of and interest due with respect to the Certificates. The District has covenanted in the Installment Purchase Agreement to set rates and charges for its services which will insure Net Revenues equal to at least 110% of the annual principal and interest requirements with respect to the Certificates and all parity obligations. The Installment Purchase Agreement provides that such obligation is a special obligation of the District and does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied any form of taxation. The obligation of the District to make Installment Purchase Payments does not constitute a debt of the District, the City of Palmdale, the County, the State or any of its political subdivisions, and does not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. For financial information with respect to the District, see "**THE DISTRICT - Operating Results**" herein and "**APPENDIX B - Audited Financial Statements of the Palmdale Water District as of December 31, 1991 and 1990**" hereto. General economic and demographic data on the City of Palmdale and the County of Los Angeles is contained in "**APPENDIX A**" hereto.

The District has previously incurred certain parity obligations that are outstanding in the form of \$11,540,000 Certificates of Participation (Refunding and Water Facilities Improvement Project) Series 1991 (the "1991 Certificates"). As of the date hereof, \$10,790,000 principal amount of the 1991 Certificates are outstanding. The 1991 Certificates are secured by an irrevocable first lien on and payable from Net Revenues. The irrevocable first lien securing the payment of the 1991 Certificates from the Net Revenues is on a parity with the Installment Purchase Payments to be made with respect to the Certificates. See "**THE DISTRICT - Parity Obligations**" herein.

ESTIMATED SOURCES AND USES OF PROCEEDS

The proceeds to be received from the sale of the Certificates are anticipated to be deposited as follows:

Sources:

Principal Amount of Certificates	\$16,100,000.00
Less: Original Issue Discount	< 177,735.85 >
Accrued Interest	<u>72,530.42</u>
Total Sources	\$15,994,794.57

Uses:

Deposit to Installment Payment Fund ¹	\$1,738,274.57
Deposit to Project Fund	12,727,622.50
Deposit to Reserve Fund	1,150,052.50
Deposit to Costs of Issuance Fund ²	275,000.00
Underwriter's Discount	<u>103,845.00</u>
Total Uses	\$15,994,794.57

¹ Represents accrued interest, plus interest capitalized to April 1, 1995.

² Includes the premium in connection with the municipal bond insurance policy.

THE CERTIFICATES

General

The Certificates will be issued in the aggregate principal amount of \$16,100,000 will be dated March 1, 1993, will bear interest from their date at the rates per annum set forth on the cover page hereof, payable semiannually on October 1 and April 1 (each an "Interest Payment Date") of each year, commencing October 1, 1993, and will mature on October 1 in each year of the designated years in the principal amounts shown on the cover page hereof.

The Certificates will be issued in book-entry only form, initially registered in the name of Cede & Co., New York, New York as nominee of The Depository Trust Company ("DTC"), New York, New York. Purchasers of the Certificates (the "Beneficial Owners") will not receive certificates representing their interest in the Certificates. Individual purchases will be in principal amounts of \$5,000 or in any integral multiples thereof. Reference herein to "Owners" will mean Cede & Co., as nominee of DTC and not the Beneficial Owners. Payments of principal and interest will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants (defined hereinafter) who will remit such payments to the Beneficial Owners of the Certificates. See "APPENDIX E - Book-Entry Only System" hereto.

Interest with respect to the Certificates will be payable from the preceding Interest Payment Date unless such Certificate was executed after the close of business on the fifteenth day of the month preceding an Interest Payment Date, whether or not such day is a business day, and on or before the next Interest Payment Date, in which event, interest will be payable from such Interest Payment Date or such Certificate was dated on or prior to September 15, 1993 in which event interest will be payable from March 1, 1993, provided, however, that if at the time of delivery of any Certificate, interest with respect thereto is in default, such interest will be payable from the Interest Payment Date to which interest has been previously paid or made available for payment. Interest shall be computed on the basis of a 360 day year comprised of twelve thirty day months.

Redemption

Optional Redemption

The Certificates maturing before October 1, 2003, are not subject to optional redemption prior to maturity. The Certificates (in amounts not less than \$5,000) maturing on or after October 1, 2003 are subject to optional redemption prior to maturity at the option of the District, in whole, or in part in inverse order of maturity, and if less than all of a maturity is redeemed, then by lot within such maturity, on any April 1 or October 1 on or after October 1, 2002, from prepayments of Installment Purchase Payments, at a price equal to the principal amount of each Certificate or portion thereof to be redeemed, plus accrued interest to the redemption date and a premium (of the principal amount) computed in accordance with the following schedule:

Redemption Dates

October 1, 2002 and April 1, 2003
October 1, 2003 and April 1, 2004
October 1, 2004 and thereafter

Redemption Premium

2 %
1
0

Mandatory Sinking Fund Redemption

The Certificates maturing on October 1, 2017 (the "2017 Term Certificates") and October 1, 2023 (the "2023 Term Certificates") are subject to mandatory sinking fund redemption (selected by lot) prior to maturity from Installment Purchase Payments in the amounts and on the dates set forth below at a redemption price (in United States currency) equal to the principal amount thereof, without premium, plus accrued interest to the date of redemption:

2017 Term Certificates

<u>Redemption Date (October 1)</u>	<u>Principal Amount</u>	<u>Redemption Date (October 1)</u>	<u>Principal Amount</u>
2011	560,000	2014	660,000
2012	590,000	2015	695,000
2013	625,000	2016	735,000
		2017 (maturity)	775,000

2023 Term Certificates

<u>Redemption Date (October 1)</u>	<u>Principal Amount</u>	<u>Redemption Date (October 1)</u>	<u>Principal Amount</u>
2018	820,000	2021	970,000
2019	870,000	2022	1,025,000
2020	920,000	2023 (maturity)	1,085,000

Mandatory Redemption in Event of Default

The Certificates are subject to mandatory redemption in whole prior to maturity on any Interest Payment Date, at the principal amount thereof, without premium, together with accrued interest to the date fixed for redemption, upon the acceleration of Installment Purchase Payments in the event of default by the District under the Installment Purchase Agreement.

Mandatory Redemption from Insurance or Condemnation Proceeds

The Certificates are subject to mandatory redemption prior to maturity, in whole or in part on any Interest Payment Date, without premium together with accrued interest to the date fixed for redemption, to the extent that the Net Proceeds (defined hereinafter) of an insurance or condemnation award are not used to repair, reconstruct, or replace the Project pursuant to the Installment Payment Agreement. See "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - The Installment Purchase Agreement".

Notice of Redemption

A notice of such redemption shall be mailed to the respective Owners designated for redemption at their addresses appearing on the Certificate registration books, at least thirty days but not more than sixty days prior to the redemption date.

When redemption is authorized, the Trustee shall give notice, at the expense of the District, of the redemption of the Certificates; provided, however, except for notice of a redemption pursuant to Section 6.14(d) of the Trust Agreement or notice of a redemption from the proceeds of obligations issued to refund such Certificates, no such notice shall be given unless sufficient funds have been deposited with the Trustee to pay the redemption price of the Certificates to be redeemed.

Such notice shall specify: (a) that the Certificates or a designated portion thereof (in the case of redemption of a Certificate in part but not in whole) are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, (d) the redemption price, such price being the principal amount redeemed plus accrued interest to the date of redemption with premium, if any, (e) the date of issue of the Certificates as originally issued; (f) state that the redemption of the Certificates is subject to there being on deposit with the Trustee on the date of redemption, moneys sufficient to redeem the portion of the Certificates as set forth in the notice; and (g) the rate of interest borne by each Certificate being redeemed. Such notice shall further state that on the specified date there shall become due and payable upon each Certificate, the principal and premium, if any, together with interest accrued to said date, and that from and after such date interest with respect thereto shall cease to accrue and be payable.

Notice of redemption shall also be sent by facsimile or by registered or certified mail or overnight delivery service, at least one day prior to the mailing of such notice to the Owners, to certain registered securities depositories, national information services and to Municipal Bond Investors Assurance Corporation at the time and in the manner set forth in the Trust Agreement.

Neither failure to mail any of such notices nor any defect in any of said notices so mailed shall affect the sufficiency of the proceedings for the redemption of such Certificates.

Effect of Redemption

If, on said date of redemption, moneys for the redemption of all the Certificates to be redeemed, together with interest to said date of redemption, shall be held by Trustee so as to be available therefore on such date of redemption, and, if notice of redemption thereof shall have been given as aforesaid, then, from and after said date of redemption, interest with respect to the Certificates shall cease to accrue and become payable.

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

General

Each Certificate represents a proportionate interest in Installment Purchase Payments to be made by the District to the Corporation pursuant to the Installment Purchase Agreement. The Corporation, pursuant to the Assignment Agreement, will assign all its rights under the Installment Purchase Agreement to the Trustee for the benefit of the Owners, including its right to receive Installment Purchase Payments and prepayments thereunder. The obligation of the District to make Installment Purchase Payments constitutes a special obligation of the District payable solely from and secured by (i) an irrevocable first lien on Net Revenues (defined hereinafter) of the District (such irrevocable first lien is equal to and on a parity with the irrevocable first lien on the Net Revenues established with respect to the payment of the 1991 Certificates); (ii) subject to certain limitations contained in the Littlerock Dam Agreement (defined hereinafter) related to the obligation of the District to rebuild Littlerock Dam, Net Proceeds of insurance or condemnation proceedings related to the Project to the extent such Net Proceeds are not used for the repair, reconstruction, or replacement of the Project pursuant to the Installment Purchase Agreement; and, (iii) subject to the limitations contained in the Trust Agreement, any interest and other income derived from the

investment of moneys on deposit in certain funds and accounts held by the Trustee for the District pursuant to the Trust Agreement.

Installment Purchase Payments

Installment Purchase Payments are required to be made by the District under the Installment Purchase Agreement, on March 15 and September 15 (each an "Installment Payment Date") of each year, commencing September 15, 1993, in an amount equal to the Installment Purchase Payments coming due on the Certificates on the following April 1 and October 1, respectively. The Installment Purchase Payments and payments of other amounts due under the Installment Purchase Agreement and the Trust Agreement will be made unconditionally, without abatement, irrespective of any interference in the use by the District of the Project. The Installment Purchase Agreement requires that Installment Purchase Payments be deposited in the Installment Purchase Payment Fund (defined hereinafter) maintained by the Trustee. See "**THE DISTRICT - Installment Purchase Payments**" herein.

Net Revenues

The obligation of the District to make Installment Purchase Payments constitutes a special obligation of the District payable from and secured by an irrevocable first lien on Net Revenues of the District.

"Net Revenues" is defined in the Trust Agreement, for any fiscal year, as the Revenues (defined hereinafter) for such fiscal year less the Maintenance and Operation Expenses (defined hereinafter) for such fiscal year.

"Revenues" is defined in the Trust Agreement to mean all income, rents, rates, fees, charges and other moneys derived from the District's ownership or operation of the water system, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges, business interruption insurance proceeds, capital improvement fees or other moneys derived by the District from the sale, furnishing and supplying of the water or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the water system, plus (2) proceeds of the District's share of the County's 1 % property tax received by the District, if any, plus (3) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, or other moneys, including District reserves, plus (4) the proceeds of any standby or water availability charges collected by the District, but excluding in all cases customer deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the District and excluding any proceeds of assessments required by law to be used by the District to pay bonds heretofore or hereafter issued and to pay the contract payments due under the State Water Project Contract.

"Maintenance and Operation Expenses" is defined in the Trust Agreement to mean the reasonable and necessary costs paid or incurred by the District for maintaining and operating the water system of the District, determined in accordance with generally accepted accounting principles, including all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the water system of the District in good repair and working order, and including all administrative costs of the District that are charged directly or apportioned to the maintenance and operation of the water system of the District, such as salaries and wages of employees, overhead, insurance, taxes (if any) and insurance premiums, and including all other reasonable and necessary costs of the District or charges (other than Installment Purchase Payments) required to be paid by it to comply with the terms of the Installment Purchase Agreement and the Trust Agreement, such as compensation, reimbursement and indemnification of the Trustee; but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

Rate Covenant

The District has covenanted that it will set rates and charges for water service which will be at least sufficient to generate, during each fiscal year, Net Revenues equal to 110% of Debt Service (as defined hereinafter).

"Debt Service", is defined in the Trust Agreement to mean, for any fiscal year, the sum of (1) the interest accruing during such fiscal year on all outstanding parity bonds (if any), assuming that all such outstanding serial parity bonds are retired as scheduled and that all such outstanding parity term bonds are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of such bonds), (2) that portion of the principal amount of all outstanding serial parity bonds maturing on the next succeeding principal payment date that would have accrued during such fiscal year if such principal amount were deemed to accrue daily in equal amounts from the preceding principal payment date or during the year preceding the first principal payment date, as the case may be, (3) that portion of the principal amount of all outstanding term parity bonds required to be prepaid or paid on the next succeeding prepayment date (together with the prepayment premiums, if any, thereon) that would have accrued during such fiscal year if such principal amount (and prepayment premiums) were deemed to accrue daily in equal amounts from the preceding prepayment date or during the year preceding the first prepayment date, as the case may be, and (4) that portion of any payments, including the Installment Purchase Payments, required to be made at the times provided in all parity contract obligations that would have accrued during such fiscal year if such payments were deemed to accrue daily in equal amounts from, in each case, the preceding payment date of interest or principal or the date of the pertinent parity contract obligation, as the case may be.

For purposes of this definition, any parity contract or parity bonds issued or to be issued by the District which bears interest at a variable rate shall for all purposes hereunder be assumed to bear interest at a fixed rate equal to the higher of (i) 9.2% and (ii) the highest variable rate borne over the preceding twenty-four (24) months by outstanding variable rate debt issued by the District or, if no such variable rate debt is at the time outstanding, by variable rate debt for which the interest rate is computed by reference to an index comparable to that utilized in determining the interest rate for the contract then proposed to be entered into or the bonds then proposed to be issued.

Reserve Fund

A debt service reserve fund is established under the Trust Agreement and will be funded from proceeds of the Certificates in the amount equal to the Reserve Requirement. The term "Reserve Requirement" is defined in the Trust Agreement to mean the least of (i) 10% of the original proceeds of the Certificates, (ii) maximum annual debt service on the Certificates, or (iii) 125% of average annual debt service on the Certificates. Moneys in the Reserve Fund are to be used for the payment of Installment Purchase Payments to the extent amounts in the Installment Purchase Payment Fund are insufficient therefor. To the extent that moneys in the Reserve Fund exceed the Reserve Requirement, such excess amount shall be transferred upon written order of the District to the Trustee first, to the Rebate Fund for the purpose of meeting the District's rebate obligation to the United States; second, prior to the completion to the completion of the Project, to the Project Fund (defined hereinafter); and third, to the Installment Purchase Payment Fund. Any money remaining in the Reserve Fund after all of the principal and interest due with respect to the Certificates has been paid shall be transferred to the District.

The District may satisfy the Reserve Requirement by the deposit of a surety bond, insurance policy or letter of credit as set forth in the Trust Agreement.

Certificate Insurance

The following information has been furnished by Municipal Bond Investors Assurance Corporation (the "Insurer") for use in this Official Statement. Reference is made to **APPENDIX C** for a specimen of the Insurer's policy.

The Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond. The Insurer's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Trustee or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with Citibank, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to Citibank, N.A., Citibank, N.A. shall disburse to such owners or the Trustee payment of the insured amounts due on such Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against the Insurer. The Insurer is a limited liability corporation rather than a several liability association. The Insurer is domiciled in the State of New York and licensed to do business in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico.

As of December 31, 1991, the Insurer had admitted assets of \$2.0 billion (audited), total liabilities of \$1.4 billion (audited), and total capital and surplus of \$647 million (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory

authorities. As of September 30, 1992, the Insurer had admitted assets of \$2.3 billion (unaudited), total liabilities of \$1.6 billion (unaudited), and total capital and surplus of \$758 million (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. Copies of the Insurer's year end financial statements prepared in accordance with statutory accounting practices are available from the Insurer. The address of the Insurer is 113 King Street, Armonk, New York 10504.

Moody's Investors Service rates all bond issues insured by the Insurer "Aaa" and short term loans "MIG 1", both designated to be of the highest quality.

Standard & Poor's Corporation rates all new issues insured by the Insurer "AAA" Prime Grade.

The Moody's Investors Service rating of the Insurer should be evaluated independently of the Standard & Poor's Corporation rating of the Insurer. No application has been made to any other rating agency in order to obtain additional ratings on the Bonds. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of either or both ratings may have an adverse effect on the market price of the Bonds.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Insurance and Condemnation Awards

Subject to certain limitations contained in the Littlerock Dam Agreement, Net Proceeds of insurance or condemnation proceedings related to the Project to the extent such Net Proceeds are not used for the repair, reconstruction, or replacement of the Project pursuant to the Installment Purchase Agreement will be used by the District to make mandatory redemption payments with respect to the Certificates. See **"SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - The Installment Purchase Agreement - Insurance"** and **"THE CERTIFICATES - Redemption - Mandatory Redemption from Insurance or Condemnation Proceeds"** herein.

The term "Net Proceeds", when used with respect to any insurance or condemnation award, is defined in the Trust Agreement as the gross proceeds from such insurance or condemnation award, paid with respect to the Project, remaining after payment therefrom of all expenses incurred in the collection of such gross proceeds.

Acceleration of Installment Purchase Payments

Should the District default under the Installment Purchase Agreement, the Trustee, as assignee of the Corporation, has the right to: (i) declare all principal components of the unpaid Installment Purchase Payments, together with accrued interest at the rate or rates specified in the respective outstanding Certificates, from the immediately preceding Installment Purchase Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall be due and payable, and (ii) take whatever action at law or in equity may appear necessary or desirable to collect the Installment Purchase Payments then due or thereafter to become due, or enforce

performance and observance of any obligation, agreement or covenant of the District under the Installment Purchase Agreement.

Additional Obligations

The District has the right to issue additional obligations on a parity with the Certificates provided that (a) the Net Revenues for the most recent audited fiscal year prior to the authorization of such parity obligation have not been less than 110% the Debt Service for such fiscal year; (b) the Net Revenues for the most recent audited fiscal year preceding the date of the execution of such contract or the date of adoption by the Board of Directors of the District of the resolutions authorizing the issuance of such additional parity obligations as the case may be, including adjustments to give effect to increases or decreases in the Revenues approved and in effect as of the date of calculation shall have produced a sum equal to at least 110% of the Debt Service for such fiscal year plus the Debt Service which would have accrued had such contract been executed or bonds been issued at the beginning of such fiscal year; and (c) the estimated Net Revenues for the then current fiscal year and each fiscal year following the issuance of such parity obligation to and including the first complete fiscal year after the latest date of operation of any uncompleted projects, as evidenced by a certificate on file with the District, plus (after giving effect to the completion of all uncompleted projects), an allowance for estimated Net Revenues for each of such Fiscal Years arising from any increase in the Revenues estimated to be fixed and prescribed and which are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by a certificate on file with the District, are projected as not less than 110% of the estimated Debt Service for each such fiscal year including the debt service requirements for such parity obligations.

THE PROJECT

A portion of the proceeds from the sale of the Certificates is being used to pay for the Project. Construction of Littlerock Dam and Reservoir (hereinafter the "Dam") was completed in 1924 by the Palmdale Irrigation District, predecessor of the District, and the Littlerock Creek Irrigation District ("LCID"), pursuant to an agreement by and between the District and LCID. The title of the Dam is in the name of the District and LCID. The District and LCID have permission to operate the Dam on public land under a Special Use Permit issued by the United States Forest Service, Angeles National Forest. The District and LCID share control of the maintenance and control of the Dam and the rights to water impounded by the Dam pursuant to the aforementioned agreement between the District and LCID. Pursuant to an agreement by and among the Corporation, the District and LCID dated as of December 22, 1992 (the "Littlerock Dam Agreement"), control over the maintenance and operation of the Dam and the rights to the water impounded by the Dam will be vested in the District for a period of fifty years. At the end of such period, the control over the maintenance and operation and the rights to the water impounded by the Dam will return to the District and LCID, jointly.

The Dam is a multiple-arch, reinforced concrete structure with a current usable reservoir capacity of approximately 600 acre-feet of water.

The Project consists of the improvement of and modification to the structure of the Dam. The improvements of, and modifications to the Dam will allow water levels to rise to the 3,270 foot elevation, 12 feet above the present elevation, thereby increasing the reservoir capacity to approximately 3,500 acre-feet of water. The improvements of and modifications to the Dam will be performed in compliance with the safety requirements of the State Department of Water Resources ("DWR").

The Littlerock Dam Agreement provides, among other things, that the District is under no obligation to repair, restore or rebuild the Dam under any of the following circumstances:

- (1) the Dam is damaged or destroyed to an extent it will cost more than \$10,000,000 as of the effective date of the Littlerock Dam Agreement (as annually adjusted for inflation) to repair or rebuild the Dam;
- (2) less than 10 years from the date of damage or destruction remain until December 22, 2042; and
- (3) laws then in existence will not permit the repair or restoration of the Dam.

THE DISTRICT

General

The District was formed in 1918 by a vote of the people for the principal purpose of supplying irrigation water to the 4,600 acres then contained in its boundaries. From its formation, the District has supplied domestic water to the inhabitants within the District.

From the time of its formation until the early 1950's, the District continued to be primarily agricultural in nature. Transformation of the District from a basically agricultural area to an urban area occurred simultaneously with activation of Air Force Plant No. 42 in Palmdale and the increased utilization of Edwards Air Force Base during the early 1950's. Agricultural use of water in the District steadily diminished to the point that only 51 acre feet of agricultural water was supplied during 1965. After that year, irrigation demand, if any, was supplied from the District's domestic system; and effectively, the District became an urban water system.

In 1962, when it became apparent that the District could contract for water from the State Water Project, inclusion privileges were extended to a large portion of the south Antelope Valley for the primary purpose of participating in the State's Supplemental Water Program. As a result of this, the area of the District was expanded during the latter part of 1962 and the early part of 1963 from approximately 7,000 acres to approximately 74,000 acres. This area includes the Littlerock Creek drainage area located in the Angeles National Forest. Exclusive of the area within the Angeles National Forest, the current service area of the District is approximately 40,730 acres. The service area is largely undeveloped and uninhabited but possesses the potential for urban, commercial, and industrial development.

In 1973, the name of the Palmdale Irrigation District was changed to Palmdale Water District by Resolution No. 73-3. The name was changed to eliminate public confusion; however, the District still operates as an "Irrigation District" as such term is defined in Division 11 of the California Water Code.

General economic information with respect to the City of Palmdale and the County of Los Angeles is contained in "APPENDIX A" hereto.

Board of Directors

The District is governed by a five member Board of Directors elected at-large within the District for staggered terms of four years. The term of office of two directors expires in November of 1993.

LESLIE O. CARTER, PRESIDENT:

- Term of Office expires November 1995
- Retired Senior Field Services Engineer (electronics)

JOHN M. SIDWELL, VICE PRESIDENT:

- Term of Office expires November 1995
- Employed as a Surveyor by the County of Los Angeles

NOLAN NEGAARD, SECRETARY :

- Term of office expires November 1993
- Retired School Teacher

J. B. FREEMAN, ASSISTANT SECRETARY:

- Term of Office expires November 1995
- Retired Production Supervisor

WALTER M. DAHLITZ, DIRECTOR:

- Term of Office expires November 1993
- Retired Chemical Engineer

Management

Harold M. Fones, General Manager. Mr. Fones assumed the duties of General Manager in April, 1990. Mr. Fones, through his four superintendents, administers a variety of services including production, engineering, administration, and maintenance. Prior to appointment as the General Manager, Mr. Fones served as Utility Engineer for the City of San Luis Obispo and before that was General Manager of the East Valley Water District, General Manager of Yuba County Water District, Public Works Director in Methuen, Massachusetts, and Public Works Director in Piedmont, California. Mr. Fones is a licensed Civil Engineer in California and is a graduate of the University of California at Berkeley with a B.S. Degree in Civil Engineering.

Dennis D. LaMoreaux, Assistant Engineer-Manager. Mr. LaMoreaux has been employed by the District since March, 1989 as the Assistant Engineer-Manager. His responsibilities include construction project management, construction inspection, engineering design, and checking of plans submitted for developments. He also assumes the responsibilities of the General Manager in the General Manager's absence and is in charge of a staff of nine. His previous employment was with private consulting firms in California and Wyoming. He was involved in design and inspection of projects. He is licensed as a Civil Engineer in California and graduated from the University of Wyoming with a B.S. Degree in Civil Engineering in 1984.

David J. Myers, Business Manager. Mr. Myers has been employed by the District since June, 1992, as the Business Manager. His responsibilities include management of the functions of the business office including accounting, personnel, customer service and contract administration. Prior to joining the District, Mr. Myers was employed with United Cerebral Palsy Associations for 10 years in various positions including Director of Financial Development of the charity's Los Angeles affiliate and as Executive Director of the Texas affiliate. He graduated with a B.A. degree in Political Science from California State University, Northridge in 1981.

Budgetary Process

The District operates on a calendar year. Historically, at the closing of each calendar year a tentative budget is proposed by the District's General Manager based on the previous year's revenues and expenses, taking into account growth within the District and inflationary factors. The preliminary budget is then presented to the Board of Directors for their approval and the final budget is adopted before the close of the calendar year.

Retirement System

The District is a member of the Public Employee's Retirement System ("PERS"), administered by the State of California, to which contributions are made by the District on behalf of its employees. The plan administrator indicated the District had a surplus of \$47,691 as of June 30, 1992.

Seismic Considerations

The San Andreas Rift Zone traverses the south central portion of the service area in roughly a northwest-southeast manner. The San Andreas Rift Zone at this locale is actually a system of faults which include the Cemetery Fault Zone, the Littlerock Fault Zone and the San Andreas Fault Zone. Both the Cemetery and Littlerock faults are considered to be faults related to the major San Andreas Fault. Movement within these subsidiary faults can be expected in association with movement in the San Andreas Fault.

Parity Obligations

The Certificates are secured by an irrevocable first lien on the Net Revenues; such lien is equal to and on a parity with the irrevocable first lien on the Net Revenues established pursuant to the issuance of the 1991 Certificates.

In October of 1991, the 1991 Certificates were executed and issued pursuant to a trust agreement by and among the Corporation, the District and Bank of America National Trust and Savings Association, as trustee. The 1991 Certificates evidence the proportionate interests in the owners thereof in installment purchase payments to be made by the District as the purchase price for certain property pursuant to a restated installment purchase agreement by and between the District and the Corporation (the "1991 Installment Purchase Agreement"). The proceeds from the sale of the 1991 Certificates were used (i) to deposit moneys in an irrevocable escrow fund to effect the legal defeasance of certificates of participation issued in 1985, (ii) to pay capital costs of certain infrastructure improvements, (iii) to pay the premium of a municipal bond insurance policy issued by Municipal Bond Investors Assurance Corporation in connection with the 1991 Certificates and (iv) to pay the costs of issuing the 1991 Certificates. Pursuant to the 1991 Installment Purchase Agreement, the District is obligated to make installment purchase payments from Net Revenues.

The installment purchase payments due under the 1991 Installment Purchase Agreement are payable on March 15, and September 15, of each year in amounts equal to the principal and interest due with respect to the 1991 Certificates coming due on the following April 1, and October 1, respectively.

Pursuant to the trust agreement in connection with the 1991 Certificates, the remaining payments of the principal and interest due with respect to the 1991 Certificates are due as shown on the following table.

**Palmdale Water District
Certificates of Participation
Series 1991**

<u>Interest Payment Date</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Total Payment</u>
April 1, 1993		\$311,528.75	\$311,528.75
October 1, 1993	\$900,000	311,528.75	1,211,528.75
April 1, 1994		290,378.75	290,378.75
October 1, 1994	940,000	290,378.75	1,230,378.75
April 1, 1995		267,348.75	267,348.75
October 1, 1995	1,000,000	267,348.75	1,267,348.75
April 1, 1996		242,348.75	242,348.75
October 1, 1996	135,000	242,348.75	377,348.75
April 1, 1997		238,838.75	238,838.75
October 1, 1997	140,000	238,838.75	378,838.75
April 1, 1998		235,058.75	235,058.75
October 1, 1998	150,000	235,058.75	385,058.75
April 1, 1999		230,858.75	230,858.75
October 1, 1999	160,000	230,858.75	390,858.75
April 1, 2000		226,285.75	226,285.75
October 1, 2000	165,000	226,285.75	391,258.75
April 1, 2001		221,391.25	221,391.25
October 1, 2001	175,000	221,391.25	396,391.25
April 1, 2002		216,141.25	216,141.25
October 1, 2002	185,000	216,141.25	401,141.25
April 1, 2003		210,498.75	210,498.75
October 1, 2003	200,000	210,498.75	410,498.75
April 1, 2004		204,298.75	204,298.75
October 1, 2004	210,000	204,298.75	414,298.75
April 1, 2005		197,736.25	197,736.25
October 1, 2005	225,000	197,736.25	422,736.25
April 1, 2006		190,648.75	190,648.75
October 1, 2006	240,000	190,648.75	430,648.75
April 1, 2007		183,028.75	183,028.75
October 1, 2007	255,000	183,028.75	438,028.75
April 1, 2008		174,868.75	174,868.75
October 1, 2008	270,000	174,868.75	444,868.75

**Palmdale Water District
Certificates of Participation
Series 1991
(continued)**

<u>Interest Payment Date</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Total Payment</u>
April 1, 2009		\$166,600.00	\$166,600.00
October 1, 2009	\$285,000	166,600.00	451,600.00
April 1, 2010		157,871.88	157,871.88
October 1, 2010	305,000	157,871.88	462,871.88
April 1, 2011		148,531.25	148,531.25
October 1, 2011	320,000	148,531.25	468,531.25
April 1, 2012		138,731.25	138,731.25
October 1, 2012	340,000	138,731.25	478,731.25
April 1, 2013		128,318.75	128,318.75
October 1, 2013	365,000	128,318.75	493,318.75
April 1, 2014		117,140.63	117,140.63
October 1, 2014	385,000	117,140.63	502,140.63
April 1, 2015		105,350.00	105,350.00
October 1, 2015	410,000	105,350.00	515,350.00
April 1, 2016		92,793.75	92,793.75
October 1, 2016	435,000	92,793.75	527,793.75
April 1, 2017		79,471.88	79,471.88
October 1, 2017	460,000	79,471.88	539,471.88
April 1, 2018		65,384.38	65,384.38
October 1, 2018	490,000	65,384.38	555,384.38
April 1, 2019		50,378.13	50,378.13
October 1, 2019	520,000	50,378.13	570,378.13
April 1, 2020		34,453.13	34,453.13
October 1, 2020	550,000	34,453.13	584,453.13
April 1, 2021		17,609.38	17,609.38
October 1, 2021	<u>575,000</u>	<u>17,609.38</u>	<u>592,609.38</u>
	\$10,790,000.00	\$9,887,733.75	\$20,677,733.75

Pursuant to the Trust Agreement, payments of the principal and interest due with respect to the Certificates are due as shown on the following table.

**Palmdale Water District
Certificates of Participation
Series 1993A**

<u>Interest Payment Date</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Total Payment</u>
October 1, 1993		\$507,712.92	\$507,712.92
April 1, 1994		435,182.50	435,182.50
October 1, 1994		435,182.50	435,182.50
April 1, 1995		435,182.50	435,182.50
October 1, 1995		435,182.50	435,182.50
April 1, 1996		435,182.50	435,182.50
October 1, 1996	\$275,000.00	435,182.50	710,182.50
April 1, 1997		430,026.25	430,026.25
October 1, 1997	290,000.00	430,026.25	720,026.25
April 1, 1998		424,226.25	424,226.25
October 1, 1998	300,000.00	424,226.25	724,226.25
April 1, 1999		418,076.25	418,076.25
October 1, 1999	310,000.00	418,076.25	728,076.25
April 1, 2000		411,333.75	411,333.75
October 1, 2000	325,000.00	411,333.75	736,333.75
April 1, 2001		404,021.25	404,021.25
October 1, 2001	340,000.00	404,021.25	744,021.25
April 1, 2002		395,946.25	395,946.25
October 1, 2002	355,000.00	395,946.25	750,946.25
April 1, 2003		387,248.75	387,248.75
October 1, 2003	375,000.00	387,248.75	762,248.75
April 1, 2004		377,873.75	377,873.75
October 1, 2004	390,000.00	377,873.75	767,873.75
April 1, 2005		368,123.75	368,123.75
October 1, 2005	410,000.00	368,123.75	778,123.75
April 1, 2006		357,668.75	357,668.75
October 1, 2006	430,000.00	357,668.75	787,668.75
April 1, 2007		346,381.25	346,381.25
October 1, 2007	455,000.00	346,381.25	801,381.25
April 1, 2008		334,437.50	334,437.50
October 1, 2008	480,000.00	334,437.50	814,437.50
April 1, 2009		321,717.50	321,717.50
October 1, 2009	505,000.00	321,717.50	826,717.50

**Palmdale Water District
Certificates of Participation
Series 1993A
(continued)**

<u>Interest Payment Date</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Total Payment</u>
April 1, 2010		\$308,082.50	\$308,082.50
October 1, 2010	\$530,000.00	308,082.50	838,082.50
April 1, 2011		293,507.50	293,507.50
October 1, 2011	560,000.00	293,507.50	853,507.50
April 1, 2012		277,827.50	277,827.50
October 1, 2012	590,000.00	277,827.50	867,827.50
April 1, 2013		261,307.50	261,307.50
October 1, 2013	625,000.00	261,307.50	886,307.50
April 1, 2014		243,807.50	243,807.50
October 1, 2014	660,000.00	243,807.50	903,807.50
April 1, 2015		225,327.50	225,327.50
October 1, 2015	695,000.00	225,327.50	920,327.50
April 1, 2016		205,867.50	205,867.50
October 1, 2016	735,000.00	205,867.50	940,867.50
April 1, 2017		185,287.50	185,287.50
October 1, 2017	775,000.00	185,287.50	960,287.50
April 1, 2018		163,587.50	163,587.50
October 1, 2018	820,000.00	163,587.50	983,587.50
April 1, 2019		140,012.50	140,012.50
October 1, 2019	870,000.00	140,012.50	1,010,012.50
April 1, 2020		115,000.00	115,000.00
October 1, 2020	920,000.00	115,000.00	1,035,000.00
April 1, 2021		88,550.00	88,550.00
October 1, 2021	970,000.00	88,550.00	1,058,550.00
April 1, 2022		60,662.50	60,662.50
October 1, 2022	1,025,000.00	60,662.50	1,085,662.50
April 1, 2023		31,193.75	31,193.75
October 1, 2023	<u>1,085,000.00</u>	<u>31,193.75</u>	<u>1,116,193.75</u>
	\$16,100,000.00	\$18,273,012.92	\$34,373,012.92

Aggregate Installment Purchase Payments

Payments of the principal and interest due with respect to the Certificates and the remaining payments of the principal and interest due with respect to the 1991 Certificates are due as shown on the following table. See **"THE DISTRICT - Projected Debt Service Coverage"** herein for a table showing the District's projected debt service coverage of the Certificates and the 1991 Certificates.

Palmdale Water District Certificates of Participation

<u>Interest Payment Date</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Total Payment</u>
April 1, 1993		\$311,528.75	\$311,528.75
October 1, 1993	\$900,000.00	819,241.67	1,719,241.67
April 1, 1994		725,561.25	725,561.25
October 1, 1994	940,000.00	725,561.25	1,665,561.25
April 1, 1995		702,531.25	702,531.25
October 1, 1995	1,000,000.00	702,531.25	1,702,531.25
April 1, 1996		677,531.25	677,531.25
October 1, 1996	410,000.00	677,531.25	1,087,531.25
April 1, 1997		668,865.00	668,865.00
October 1, 1997	430,000.00	668,865.00	1,098,865.00
April 1, 1998		659,285.00	659,285.00
October 1, 1998	450,000.00	659,285.00	1,109,285.00
April 1, 1999		648,935.00	648,935.00
October 1, 1999	470,000.00	648,935.00	1,118,935.00
April 1, 2000		637,592.50	637,592.50
October 1, 2000	490,000.00	637,592.50	1,127,592.50
April 1, 2001		625,412.50	625,412.50
October 1, 2001	515,000.00	625,412.50	1,140,412.50
April 1, 2002		612,087.50	612,087.50
October 1, 2002	540,000.00	612,087.50	1,152,087.50
April 1, 2003		597,747.50	597,747.50
October 1, 2003	575,000.00	597,747.50	1,172,747.50
April 1, 2004		582,172.50	582,172.50
October 1, 2004	600,000.00	582,172.50	1,182,172.50
April 1, 2005		565,860.00	565,860.00
October 1, 2005	635,000.00	565,860.00	1,200,860.00
April 1, 2006		548,317.50	548,317.50
October 1, 2006	670,000.00	548,317.50	1,218,317.50
April 1, 2007		529,410.00	529,410.00
October 1, 2007	710,000.00	529,410.00	1,239,410.00
April 1, 2008		509,306.25	509,306.25
October 1, 2008	750,000.00	509,306.25	1,259,306.25
April 1, 2009		488,317.50	488,317.50
October 1, 2009	790,000.00	488,317.50	1,278,317.50

**Palmdale Water District
Certificates of Participation
(continued)**

<u>Interest Payment Date</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Total Payment</u>
April 1, 2010		\$465,954.38	\$ 465,954.38
October 1, 2010	\$835,000.00	465,954.38	1,300,954.38
April 1, 2011		442,038.75	442,038.75
October 1, 2011	880,000.00	442,038.75	1,322,038.75
April 1, 2012		416,558.75	416,558.75
October 1, 2012	930,000.00	416,558.75	1,346,558.75
April 1, 2013		389,626.25	389,626.25
October 1, 2013	990,000.00	389,626.25	1,379,626.25
April 1, 2014		360,948.13	360,948.13
October 1, 2014	1,045,000.00	360,948.13	1,405,948.13
April 1, 2015		330,677.50	330,677.50
October 1, 2015	1,105,000.00	330,677.50	1,435,677.50
April 1, 2016		298,661.25	298,661.25
October 1, 2016	1,170,000.00	298,661.25	1,468,661.25
April 1, 2017		264,759.38	264,759.38
October 1, 2017	1,235,000.00	264,759.38	1,499,759.38
April 1, 2018		228,971.88	228,971.88
October 1, 2018	1,310,000.00	228,971.88	1,538,971.88
April 1, 2019		190,390.63	190,390.63
October 1, 2019	1,390,000.00	190,390.63	1,580,390.63
April 1, 2020		149,453.13	149,453.13
October 1, 2020	1,470,000.00	149,453.13	1,619,453.13
April 1, 2021		106,159.38	106,159.38
October 1, 2021	1,545,000.00	106,159.38	1,651,159.38
April 1, 2022		60,662.50	60,662.50
October 1, 2022	1,025,000.00	60,662.50	1,085,662.50
April 1, 2023		31,193.75	31,193.75
October 1, 2023	<u>1,085,000.00</u>	<u>31,193.75</u>	<u>1,116,193.75</u>
	\$26,890,000.00	\$28,160,746.67	\$55,050,746.67

Water Supply and Requirements

The District receives its water from three sources: local groundwater, surface water from Littlerock Creek and imported water from the DWR through the State Water Project ("SWP") . During 1992, the District received 58% of its water from local groundwater, 19% from surface water and 23% from SWP.

Local Groundwater

Natural recharge of the Antelope Valley groundwater basin is accounted for mainly by watershed areas in the San Gabriel Mountains. Creeks and streams spread runoff from precipitation in mountains over alluvial fans on the northern slopes. Recharge of the area is limited by the semi-arid regional climate.

The District maintains and operates 25 wells in order to provide adequate service. The wells are the primary source of the domestic water supply within the District. During 1992, the District received 9,388 acre-feet of water from its wells.

Surface Water

Water from Littlerock Creek and the Santiago Canyon watershed is diverted into the Littlerock Reservoir which currently has a usable storage capacity of approximately 600 acre-feet of water; after completion of the Project the storage capacity of the Littlerock Reservoir will be approximately 3,500 acre-feet. An acre-foot is equivalent to approximately 325,000 gallons and represents the approximate annual needs of one and one-half to two average families in and around the house. Pursuant to the Littlerock Dam Agreement, the District is entitled to 100% of the storage capacity of the Littlerock Reservoir. During 1992, the District received 3,080 acre-feet of water from the Littlerock Reservoir which represented approximately 19% of the District's total water deliveries for the year.

In addition to the Littlerock Reservoir, the District maintains and operates Palmdale Lake a reservoir used to store water from the Dam and SWP. Such reservoir has a storage capacity of 4,130 acre-feet. The District maintains Palmdale Lake at 100% of total capacity during the months of May through October and at 75% of capacity from November through April. During 1992, the District used 6,711 acre-feet from Palmdale Lake.

State Water Project

The District is entitled to receive 17,300 acre-feet of water from SWP, but in 1992, the District received only 3,631 acre-feet of water, which represented approximately 21% of its allocation. This amount of water represents approximately 23% of the water deliveries made by the District during 1992.

The recent drought in California has led to curtailment of deliveries of water from SWP. The governor initiated water marketing as a part of the drought contingency. Under this plan, it was possible to buy other water necessary from farmers following their crops. The State Water Bank acquired water supplies to meet critical needs consistent with criteria developed by the Governor of California.

During 1991 the State Water Bank acquired nearly 860,000 acre-feet (an amount sufficient to meet critical needs of all participants) with additional water remaining for purchase by bank members.

On March 10, 1992, negotiations were completed for the 1992 California Drought Emergency Water Bank ("92-Bank"). As of mid-May 1992 signed contracts had been received from seven sellers with potential supplies of 115,000 acre-feet. Critical needs statewide were identified for about 150,000 acre-feet. State officials anticipate that the 92-Bank will have adequate water to meet the critical needs of all bank participants.

The District did not need to make any such purchases from the 92-Bank during 1992. Nevertheless, the District was able to deliver all the water necessary to its customers from its local ground water wells and water deliveries from the Reservoir and water from SWP. The District's future supply will be based on wells and treated water from Palmdale Lake which receives its water from SWP and the Reservoir. The District's drought plans are to be able to provide adequate water from either source should the other have a shortfall.

A recent article in the Los Angeles Times reported that officials of the DWR have "advised the Metropolitan Water District of Southern California and other agencies to expect no

more than 10% of requested deliveries from the State Water Project [in 1993]." The District anticipates that, notwithstanding a reduction in water supplies from SWP, it will have adequate water supplies to provide adequate service.

As reported in an article in the February 25, 1993 edition of the Los Angeles Times, Governor Wilson declared the drought to be over in California.

New Meter Connections and Consumption

The chart below indicates the new meter connections and water consumption for the District during calendar years 1981 through 1992.

Palmdale Water District New Meter Connections and Water Consumption For Calendar Years 1981-1992

<u>Calendar Year</u>	<u>New Meter Connections</u>	<u>Total Meters</u>	<u>Water Consumption (MG)</u>
1981	253	6,457	2,103.8
1982	68	6,525	1,835.5
1983	1,066	7,591	1,952.5
1984	828	8,419	2,359.0
1985	1,761	10,180	2,626.8
1986	1,460	11,640	3,251.1
1987	1,637	13,277	3,749.9
1988	1,999	15,276	4,458.4
1989	2,029	17,305	5,339.0
1990	2,291	19,596	5,893.0
1991	2,332	21,928	5,108.7
1992	516	22,444	5,722.9

Source: The District.

Water System Rates and Charges

The District is required to update the Capital Improvement Plan yearly. In general, the methodology used to determine the fees consists of estimating the cost of needed improvements for each elevation zone and the District as a whole, estimating the number of services which provide the base on which the cost will be allocated and then adjusting the capital improvement fees based upon those estimates.

Revenues of the District may be derived from four sources: (a) water sales, (b) water services, (c) capital improvement charges, and (d) standby charges.

Water Rates and Sales

The District increased water rates on November 1, 1990 and then again on December 8, 1992. The District's rates are comparable to other water agencies' rates in the area. A typical bimonthly water bill is approximately \$48.62 per household.

**Palmdale Water District
Comparative Water Rates - Average Month
Water Rates at 21 Units Per Month (15,708 Gals.)**

<u>Dist.</u>	<u>L.A. County</u>	<u>Meter 5/8"</u>	<u>Meter 1"</u>
#4	Lancaster	\$15.84	\$21.20
#24	Pearblossom	\$17.29	\$23.45
#27	Littlerock	\$18.25	\$25.37
#33	Sun Village	\$18.26	\$25.39
#34	Palmdale	\$24.23	\$30.82
#35	N/E L.A. County	\$20.56	\$26.63
#38	Lake Los Angeles	\$18.00	\$24.87
#39	Rock Creek	\$31.86	\$41.46
Area #1	Quartz Hill W.D.	\$18.10	\$20.10
Area #2	Quartz Hill W.D.	\$25.70	\$27.70
	Palmdale Water Dist.	\$24.31	\$29.51

Source: The District.

The District's minimum monthly charge for water is \$9.75 per month up to 500 cubic feet of water per month. Water is charged at \$0.91 per 100 cubic feet of water used in excess of the monthly minimum up to the first 20,000 cubic feet per month, and \$0.99 per 100 cubic feet for usage in excess of 20,000 cubic feet per month. Minimum charges vary according to meter size. The following table presents the current minimum charges for the supply of water:

**Palmdale Water District
Minimum Water Charges**

<u>Meter Size</u>	<u>Minimum Monthly Charge</u>	<u>Volume Of Water That May Be Used Per Month For Minimum Charge</u>
5/8" x 3/4"	\$ 9.75	500 Cu. Feet
1"	19.50	1,000 Cu. Feet
1-1/2"	29.25	1,500 Cu. Feet
2"	48.75	2,500 Cu. Feet
3"	97.50	5,000 Cu. Feet
4"	165.75	8,500 Cu. Feet
6"	321.75	16,500 Cu. Feet
8"	516.75	26,500 Cu. Feet
10"	750.75	38,500 Cu. Feet
12"	975.00	50,000 Cu. Feet

Source: The District.

Water Services

This revenue is derived from service requirements to the District's customers. These charges are made on a "cost plus basis" and are not of a significant nature.

Capital Improvement Fees

A capital improvement fee in the amounts set forth in the following tables is payable to the District upon application for and before installation or approval of installation of any new water service. Capital improvement fees as of September 15, 1992 are payable in the following amounts:

**Palmdale Water District
Capital Improvement Fees**

A. Capital Improvement Fees for Single Family Residential Connection Per System Elevation Zone.

Zones from Which Allocations Are Made	<u>2800' Zone</u>	<u>2950' and 3000' Zones</u>	<u>3200' and 3250' Zones</u>	<u>3350' and Higher Zones</u>
Costs Affecting All Zones	\$1,214	\$1,214	\$1,214	\$1,214
2800' System Facilities	368	29	29	29
2950' & 3000' System Facilities		350	77	77
3200' & 3250' System Facilities			325	485
3350' & Higher System Facilities				488
Capital Improvement Fee Per Elevation System Zone	\$1,582	\$1,593	\$1,645	\$2,293

B. Capital Improvement Fees for Commercial and Industrial Development Per Meter or Service Size.

<u>Meter and/or Service Size</u>	<u>2800' Zone</u>	<u>2950' and 3000' Zones</u>	<u>3200' and 3250' Zones</u>	<u>3350' and Higher Zones</u>
3/4"	\$1,582	\$1,593	\$1,646	\$2,293
1"	2,810	2,830	2,920	4,080
1-1/2"	6,330	6,370	6,580	9,170
2"	11,250	11,330	11,700	16,310
2-1/2"	17,580	17,700	18,280	25,480
3"	25,310	25,490	26,320	36,690
4"	45,000	45,310	46,790	65,220
6"	101,250	101,950	105,280	146,750
8"	180,000	181,250	187,160	260,890
10"	281,240	283,200	292,440	407,640

C. Capital Improvement Fees for Commercial and Industrial Development Based on Fire Flow.

<u>Fire Flow in GPM</u>	<u>2800' Zone \$1535-C.I.F.</u>	<u>2950' and 3000' Zones \$1543-C.I.F.</u>	<u>3200' and 3250' Zones \$1556-C.I.F.</u>	<u>3350' and Higher Zones \$2189-C.I.F.</u>
1250	\$75,000	\$75,520	\$77,980	\$108,700
1500	90,000	90,620	93,580	130,440
1750	105,000	105,730	109,180	152,180
2000	120,000	120,830	124,770	173,930
2250	134,990	135,930	140,370	195,670
2500	149,990	151,040	155,970	217,410
2750	164,990	166,140	171,560	239,150
3000	179,990	181,240	181,160	260,890
3250	194,990	196,350	202,760	282,630
3500	209,990	211,450	218,350	304,370

Source: The District.

Standby Charges

As a supplement to District revenues, the District Board of Directors may fix, levy and collect water standby assessment or availability charges for the purposes of financing the acquisition, improvement and expansion of the water system. Currently, the District levies no standby charges within the District service area.

In 1988, the Legislature enacted the Uniform Standby Charge Procedures Act as section 54984 *et seq.* of the California Government Code (the "Act"). The Act provides an alternative procedure for collecting standby charges.

The Act allows standby charges to be levied for both water and sewer and does not contain any cap as to the amount of such standby charges. However, the Act further requires that a noticed public hearing be conducted prior to the implementation of such standby charges and requires mailed notice of the hearing to be sent to all effected property owners. In the event protests are received representing 15% or more of the parcels affected, the standby charges must be taken to an election in which a majority vote is required. In the event protests are received representing 40% or more of the affected parcels, the proceedings must be abandoned.

In the event the standby charges pass the protest challenge and are successfully enacted, they may be continued in successive years by action of the governing body, so long as the amount does not increase. Any increase would require the same protest hearing procedures as are specified for initial enactment of standby charges under the Act.

Principal Water Users

The fifteen largest water customers in the District are as follows:

Palmdale Water District Principal Water Users (1992 Sales)

<u>Name</u>	<u>Annual Consumption/ 100 Cubic Feet</u>	<u>Amount</u>
Lockheed	73,520	\$71,379
Palmdale High School	69,408	67,386
Sage Tree Palmdale Ltd.	58,572	58,312
Sierra Vista Mobile Homes	44,836	44,407
Monte Vista Community Assoc.	32,319	31,378
Palmdale School District-Mesa	29,322	27,404
Federal Aviation Administration	28,111	27,292
157 Mobile Homes-Clayton Hurley	25,572	24,827
220 Mobile Homes-Thousand Elm	23,296	22,617
Village Garden Apts.	14,405	13,463
Palmdale School District-Mesquite	14,395	13,453
Palmdale School District (20th St.)	14,271	13,855
Urban West	14,103	13,180

Source: The District.

Historical Operating Results

The following table sets forth historical operating results for the District for the years 1988 through 1992. The historical information for the years 1988 through 1991 has been excerpted from the District's audited financial statements. The information for the year 1992 has been excerpted from the preliminary financial statements of the District as of December 31, 1992 and is unaudited. See "APPENDIX B - Audited Financial Statements of the Palmdale Water District as of December 31, 1991 and 1990" hereto.

Palmdale Water District Historical Operating Results¹ for fiscal year ended December 31

	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u> ²
<u>Operating revenue</u>	<u>\$4,238,917</u>	<u>\$6,490,233</u>	<u>\$6,554,721</u>	<u>\$6,329,443</u>	<u>\$7,088,754</u>
<u>Operating expenses:</u>					
Purchased water	583,422	679,331	994,838	809,151	424,015
Operation and maintenance	2,473,485	2,603,175	3,198,410	3,125,943	3,491,595
General and administrative	1,378,381	1,407,652	1,705,574	2,061,925	2,363,810
Depreciation	1,239,074	1,510,212	1,692,163	1,876,229	1,913,716
Service and installation	<u>61,491</u>	<u>111,006</u>	<u>86,886</u>	<u>44,183</u>	<u>68,570</u>
	5,735,853	6,311,376	7,677,871	7,917,431	8,261,706
Less capitalized const.	<u><266,868></u>	<u><244,806></u>	<u><345,669></u>	<u><456,923></u>	<u><500,053></u>
	<u>5,468,985</u>	<u>6,066,570</u>	<u>7,332,202</u>	<u>7,460,508</u>	<u>7,761,653</u>
Operating income (loss)	<1,230,068>	423,663	<777,481>	<1,131,065>	<672,899>
<u>Nonoperating revenues:</u>					
Assessments levied	2,138,888	2,943,312	3,246,504	3,624,116	4,091,536
Interest	907,642	1,380,458	1,793,621	1,583,979	1,223,863
Capital improvement fees	2,974,593	5,684,227	3,632,559	1,214,950	1,017,579
Other	<u>82,993</u>	<u>209,520</u>	<u>211,325</u>	<u>82,809</u>	<u>234,948</u>
	<u>6,104,116</u>	<u>10,217,517</u>	<u>8,884,009</u>	<u>6,505,854</u>	<u>6,567,926</u>
<u>Nonoperating expenses:</u>					
Interest on long-term debt	615,881	565,636	505,037	383,391	345,975
Amortization	166,263	188,974	208,176	231,168	257,151
Loss on defeasance	-	-	-	<u>158,763</u>	-
	<u>782,144</u>	<u>754,610</u>	<u>713,213</u>	<u>773,322</u>	<u>603,126</u>
NET EARNINGS	<u>\$4,091,904</u>	<u>\$9,886,570</u>	<u>\$7,393,315</u>	<u>\$4,601,467</u>	<u>\$5,291,901</u>

¹ Based on the audited financial statements of the District. See "APPENDIX B - Audited Financial Statements of the Palmdale Water District as of December 31, 1991 and 1990".

² Preliminary.

Source: The District.

Projected Operating Results

The following table sets forth projected operating results for the District for the years 1993 through 1997. These projections are based upon the District's current rates, current circumstances and available information that the District believes to be reasonable. The assumptions may be affected by numerous factors and there can be no assurance that such projections will be achieved.

Palmdale Water District Projected Statement of Earnings 1993 through 1997

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
<u>Operating revenue</u> ¹	\$8,530,000	\$8,871,200	\$9,657,700	\$10,044,100	\$10,445,900
<u>Operating expenses:</u>					
Purchased water ²	1,200,000	1,400,000	1,600,000	1,700,000	1,800,000
Operation and maintenance ³	3,700,000	4,148,000	4,313,900	4,486,500	4,666,000
General and administrative ⁴	2,600,000	2,704,000	2,812,200	2,924,700	3,041,700
Service and installation ⁴	90,000	93,600	97,300	101,200	105,200
Depreciation ⁴	2,000,000	2,080,000	2,163,200	2,249,700	2,339,700
Less capitalized construction ⁴	<u><480,000></u>	<u><499,200></u>	<u><519,200></u>	<u><540,000></u>	<u><561,600></u>
Total operating expenses	9,110,000	9,926,400	10,467,400	10,922,100	11,391,000
Operating income (loss)	<580,000>	<1,055,200>	<809,700>	<878,000>	<945,100>
<u>Nonoperating revenues:</u>					
Assessments-voter approved ⁵	1,244,000	1,317,000	1,312,000	1,289,000	1,290,000
Assessments 1 % ⁶	902,000	938,100	975,600	1,014,600	1,055,200
Interest ⁷	951,800	996,200	1,036,300	1,088,400	1,156,500
Capital improvement fees ⁸	1,100,000	1,200,000	1,300,000	1,400,000	1,500,000
Other ⁹	<u>150,000</u>	<u>155,000</u>	<u>160,000</u>	<u>165,000</u>	<u>170,000</u>
Total nonoperating revenues	4,347,800	4,606,300	4,783,900	4,957,000	5,171,700
<u>Nonoperating expenses:</u>					
Interest, 1966 bonds ¹⁰	45,500	41,500	37,400	33,000	28,500
Interest, 1991 COP ¹⁰	623,100	580,800	534,700	484,700	477,700
Interest, 1993 COP ¹¹	0	0	435,200	870,400	860,100
Amortization of SWP ¹²	<u>283,000</u>	<u>311,500</u>	<u>340,600</u>	<u>369,600</u>	<u>399,600</u>
Total nonoperating expenses	951,600	933,800	1,347,900	1,757,700	1,765,900
NET EARNINGS	<u>\$2,816,200</u>	<u>\$2,617,300</u>	<u>\$2,626,300</u>	<u>\$2,321,300</u>	<u>\$2,460,700</u>

Source: the District.

**Palmdale Water District
Projected Statements of Earnings**

FOOTNOTES

Footnote #

1. Operating Revenues

Operating revenues include water sales and other service revenue. On January 1, 1993, new water rates which increased the minimum charge per customer based upon meter size and minimum water allowance became effective. Consumption amounts, after the minimum water allowance, remained unchanged. The imposition of the new rates is expected to generate a fixed increase during 1993 in excess of \$1,400,000. Water sales during subsequent years are estimated to increase 4% per year; rate increases of 5% per year are projected to become effective in 1995, 1998, and 2001. Other service revenue is projected to increase 4% per year.

2. Purchased Water

Every year at or around June 30, the District receives a report from the State Department of Water Resources indicating the expected charges to the District for the capitalized portion of the State Water Project as well as the amounts to be considered operating expenses for the following calendar year. All of the District's purchased water charges are from the Department of Water Resources.

Included in such report is a projection of future years charges running to the year 2035 for both capitalized and operating amounts. The variable component of operating expenses is based on the District using 17,300 acre-feet per year.

This projection includes the annual minimum charge plus one-half of the allotment of 17,300 acre-feet.

3. Operation and Maintenance

Included are regular operation and maintenance expenses as well as the operations of the water treatment plant. In addition to a 4% increase, the District has budgeted for 1993 an additional \$300,000 to reflect the completion of doubling the size of the water treatment plant; and thereafter projects a 4% increase per year.

4. General and Administrative; Service and Installation, Depreciation; and Capitalized Construction

Represents increases of 4% per year. Capitalized construction represents the amount of labor, materials and overhead that operating expenses are reduced by and capitalized for District projects.

5. Assessments: Voter Approved

This amount is assessed by the District and represents the capitalized portion of the State Water Project and the annual principal of and interest on the Series 1966 Bonds. These amounts are based on the projected capitalized amounts provided by the Department of Water Resources for each year to 2035 and the annual debt service on the Series 1966 Bonds.

6. Assessments: 1%

In prior years the District has received a portion of the 1% County *ad valorem* property tax. Recent legislation (SB844) has provided for the permanent reallocation of such property tax revenue from counties, cities and special districts to schools effective during fiscal year 1992/1993. Initially, such reallocation was to be 35% of the District's share of the *ad valorem* tax; the amount shown for 1993 reflects such reallocation.

The legislation provided that an additional 5% could be reallocated from counties, cities and special districts to schools. Additionally, Governor Wilson has proposed in his budget for fiscal year 1993/1994 the reallocation of the balance of such taxes from counties, cities and special districts. Should this occur, the entire amount for each year could be reduced to zero. Since these proposals are not currently in effect, the expected 1993 portion and increases of 4% per year are being presented.

If legislation reallocating any or all of these moneys becomes effective, the District has the option of increasing water rates or imposing standby fees (not currently imposed) to offset such loss of revenue.

7. Interest Income

Based on a cash flow schedule and computed at 5% interest rate on the average cash balance. The District has consistently shown superior interest earnings and currently earns approximately 6.5% per year on its cash.

8. Capital Improvement Fees

The projected amount for 1993 is based upon approximately 440 residential fees and 10 commercial. An increase of \$100,000 per year will require an additional 60 residential or two commercial additions per year.

9. Other

Increases of \$5,000 per year.

10. Interest on Series 1966 Bonds and the 1991 Certificates

Based on actual debt service schedules.

11. Interest on the 1993 Certificates

Based on the debt service schedule from A. G. Edwards & Sons, Inc., 30 years with interest capitalized to April 1, 1995. These numbers will change based on the actual amount of the issue and the debt service plan adopted.

12. Amortization of SWP

This is a non-cash expenditure which represents the amortization of the capitalized portion of the District's share of the State Water Project. As described in footnote 2, the amount capitalized was projected based on information supplied by the State Department of Water Resources and is amortized on a descending life to 2035.

Projected Debt Service Coverage

The following table sets forth projected debt service coverage for the years 1993 through 1997. These projections are based on the District's projected operating results, and a 30-year financing in the amount of \$16,100,000 having an average interest rate of 5.57%.

Palmdale Water District Projected Debt Service Coverage 1993 through 1997

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
<u>Operating revenue</u> ¹	\$8,530,000	\$8,871,200	\$9,657,700	\$10,044,100	\$10,445,900
<u>Operating expenses:</u>					
Purchased water ²	1,200,000	1,400,000	1,600,000	1,700,000	1,800,000
Operation and maintenance ³	3,700,000	4,148,000	4,313,900	4,486,500	4,666,000
General and administrative ⁴	2,600,000	2,704,000	2,812,200	2,924,700	3,041,700
Service and installation ⁴	<u>90,000</u>	<u>93,600</u>	<u>97,300</u>	<u>101,200</u>	<u>105,200</u>
Total operating expenses	7,590,000	8,345,600	8,823,400	9,212,400	9,612,900
Net operating revenue	940,000	525,600	834,300	831,700	833,000
<u>Nonoperating revenues:</u>					
Assessment 1% ⁵	902,000	938,100	975,600	1,014,600	1,055,200
Interest ⁶	951,800	996,200	1,036,300	1,088,400	1,156,500
Capital improvement fees ⁷	1,100,000	1,200,000	1,300,000	1,400,000	1,500,000
Other ⁸	<u>150,000</u>	<u>155,000</u>	<u>160,000</u>	<u>165,000</u>	<u>170,000</u>
Total nonoperating revenues	3,103,800	3,289,300	3,471,900	3,668,000	3,881,700
Net revenue available for debt service	4,043,800	3,814,900	4,306,200	4,499,700	4,714,700
<u>Debt Service:</u>					
1991 COP's ⁹	1,523,100	1,520,800	1,534,700	619,700	617,700
1993 COP's ¹⁰	<u>0</u>	<u>0</u>	<u>435,200</u>	<u>1,145,400</u>	<u>1,150,100</u>
Total Debt Service	1,523,100	1,520,800	1,969,900	1,765,100	1,767,800
Coverage	2.7	2.5	2.2	2.6	2.7
NET REVENUES AVAILABLE	<u>\$2,520,700</u>	<u>\$2,294,100</u>	<u>\$2,336,300</u>	<u>\$2,734,600</u>	<u>\$2,946,900</u>

Source: the District.

**Palmdale Water District
Projected Debt Service Coverage**

FOOTNOTES

Footnote #

1. Operating Revenues
Operating revenues include water sales and other service revenue. On January 1, 1993, new water rates which increased the minimum charge per customer based upon meter size and minimum water allowance became effective. Consumption amounts, after the minimum water allowance, remained unchanged. The imposition of the new rates is expected to generate a fixed increase during 1993 in excess of \$1,400,000. Water sales during subsequent years are estimated to increase 4% per year; rate increases of 5% per year are projected to become effective in 1995, 1998, and 2001. Other service revenue is projected to increase 4% per year.
2. Purchased Water
Every year at or around June 30, the District receives a report from the State Department of Water Resources indicating the expected charges to the District for the capitalized portion of the State Water Project as well as the amounts to be considered operating expenses for the following calendar year. All of the District's purchased water charges are from the Department of Water Resources.

Included in such report is a projection of future years charges running to the year 2035 for both capitalized and operating amounts. The variable component of operating expenses is based on the District using 17,300 acre-feet per year.

This projection includes the annual minimum charge plus one-half of the allotment of 17,300 acre-feet.
3. Operation and Maintenance
Included are regular operation and maintenance expenses as well as the operations of the water treatment plant. In addition to a 4% increase, the District has budgeted for 1993 an additional \$300,000 to reflect the completion of doubling the size of the water treatment plant; and thereafter projects a 4% increase per year.
4. General and Administrative and Installation
Represents increases of 4% per year. Capitalized construction represents the amount of labor, materials and overhead that operating expenses are reduced by and capitalized for District projects.

5. Assessments: 1%

In prior years the District has received a portion of the 1% County *ad valorem* property tax. Recent legislation (SB844) has provided for the permanent reallocation of such property tax revenue from counties, cities and special districts to schools effective during fiscal year 1992/1993. Initially, such reallocation was to be 35% of the District's share of the *ad valorem* tax; the amount shown for 1993 reflects such reallocation.

The legislation provided that an additional 5% could be reallocated from counties, cities and special districts to schools. Additionally, Governor Wilson has proposed in his budget for fiscal year 1993/1994 the reallocation of the balance of such taxes from counties, cities and special districts. Should this occur, the entire amount for each year could be reduced to zero. Since these proposals are not currently in effect, the expected 1993 portion and increases of 4% per year are being presented.

If legislation reallocating any or all of these moneys becomes effective, the District has the option of increasing water rates or imposing standby fees (not currently imposed) to offset such loss of revenue.

6. Interest Income

Based on a cash flow schedule and computed at 5% interest rate on the average cash balance. The District has consistently shown superior interest earnings and currently earns approximately 6.5% per year on its cash.

7. Capital Improvement Fees

The projected amount for 1993 is based upon approximately 440 residential fees and 10 commercial. An increase of \$100,000 per year will require an additional 60 residential or two commercial additions per year.

8. Other

Increases of \$5,000 per year.

9. Interest on Series 1966 Bonds and the 1991 Certificates

Based on actual debt service schedules.

10. Interest on the 1993 Certificates

Based on the debt service schedule from A. G. Edwards & Sons, Inc., 30 years with interest capitalized to April 1, 1995.

Property Taxes and Assessed Valuations

The Los Angeles County Assessor assesses at full cash value all real and Personal property in the County for tax purposes except public utility Property which is assessed at full cash value by the State Board of Equalization. State law exempts \$7,000 of the assessed valuation of an owner-occupied dwelling. State law also exempts 100% of the value of business inventories from taxation. State law Provides for reimbursements to local taxing agencies, including the District, based on their share of the tax revenues derived from the application of the maximum tax rate applied to business inventories in the 1979/80 fiscal year, with adjustments to reflect increases in population and the consumer price index. Such reimbursement is based upon total taxes due upon such estimated values and is not reduced by any amount for estimated delinquencies.

Beginning in fiscal year 1988/89, pursuant to AB454 enacted by the California Legislature, the unitary union of the public utilities, valuation is reported by the State Board of Equalization on a County-wide basis only, rather than by separate tax rate areas as in the past. The unitary valuation Comprises all revenue producing Property of the utility and is over 90% of the total public utility valuation. The ad valorem tax revenues from the unitary portion of the public utility tax roll are distributed on a County-wide basis. As a result, only the non-unitary valuations of utilities are now reported by particular entity; hence, there is a substantial decrease in utility roll valuations in fiscal year 1988/89. It should be noted that the District will receive its share of the County-wide tax collections from the public utility roll in much the same manner as it does under the one percent levy pursuant to Proposition 13. This will include tax revenues due from utilities to meet general obligation bond debt service.

The following table presents the District's taxable assessed valuations for the past five fiscal years:

Palmdale Water District Taxable Assessed Valuations (Land Only) For Fiscal Years Ended October 30

Before Redevelopment Increment

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
1987-88	\$ 453,936,203	\$1,884,860	\$0	\$ 455,821,063
1988-89	529,459,418	2,045,413	0	531,504,831
1989-90	670,023,735	2,259,133	0	672,282,868
1990-91	927,819,396	1,707,599	0	929,526,995
1991-92	1,059,943,031	2,841,515	0	1,062,784,546
1992-93	1,092,992,292	610,450	0	1,093,602,742

After Redevelopment Increment

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
1987-88	\$353,432,979	\$1,837,160	\$0	\$355,270,139
1988-89	413,105,838	2,033,052	0	415,138,890
1989-90	522,603,502	1,797,029	0	524,400,531
1990-91	737,554,126	1,309,608	0	738,863,734
1991-92	842,997,562	2,120,382	0	845,117,944
1992-93	867,837,485	264,037	0	868,101,522

Source: California Municipal Statistics, Inc.

Constitutional Amendments Affecting District Revenues

Article XIII A

On June 6, 1978, California voters approved Proposition 13, a statewide initiative relating to the taxation of real property which added Article XIII A to the California Constitution ("Article XIII A"). Among other things, the Article XIII A: (a) limits *ad valorem* property taxes on all real property to one percent (1%) of the full cash value of the property; (b) exempts existing voter approved bonded indebtedness from the 1% limitation; (c) defines "full cash value" as the assessor's appraised value of real property as of March 1, 1975, adjusted by changes in the Consumer Price Index - not to exceed 2% per year; (d) permits establishment of a new "full cash value" when there is new construction or a change in ownership; (e) permits the reassessment, up to the March 1, 1975 value, of property which was not current on the 1975-76 assessment roll; (f) requires counties to collect the 1% property tax and to "apportion according to law to the districts within the counties"; (g) prohibits new *ad valorem* taxes on real property, or sale taxes, or transaction taxes, on the sale of real property; (h) permits the imposition of special taxes by local agencies, other than those prohibited, by a two-thirds (2/3) vote of the "qualified electors" of such agencies; and (i) requires a two-thirds (2/3) vote of all members of both houses of the Legislature for any changes in State taxes which would result in increased revenues.

Property owners in the State brought three suits challenging the acquisition value assessment provisions of Article XIII A. Two cases involved residential property, and one case involved commercial property. In all three cases, State trial and appellate courts have upheld the constitutionality of Article XIII A's assessment rules. The United States Supreme Court granted *certiorari* to two appellants; one appellant subsequently withdrew its action. On June 18, 1992 the U.S. Supreme Court issued a decision upholding Article XIII A against allegations that it violated the equal protection clause of the United States Constitution (Nordlinger v. Hahn, No. 90-1912).

Article XIII B

An initiative constitutional amendment entitled "Limitations of Government Appropriations" was approved by California voters on November 6, 1979. Under the amendment, which adds Article XIII B to the California Constitution ("Article XIII B"), state and local government agencies are subject to an annual limitation on certain appropriations. Appropriations subject to limitation consist of "tax revenues", state subventions, and certain other funds (together herein referred to as "proceeds of taxes"). The amendment does not affect the "appropriation of money excluded from the definition of "appropriations subject to limitation" such as debt service on indebtedness existing or authorized before January 1, 1979 or subsequently authorized by the voters and appropriations mandated by any court having proper jurisdiction. The amendment also excludes from limitation the appropriation of proceeds from regulatory licenses, user charges or other fees to the extent such proceeds equal "the costs reasonably borne by such entity in providing the regulation, product, or service."

In general terms, the amendment provides that the appropriations limit will be based on certain 1978-79 expenditures and will be adjusted annually to reflect changes in cost of living, population, and transfer of financial responsibility of providing services from one governmental unit to another. The amendment also provides that if an agency's revenues in any year exceed the amount which is appropriated by such agency in compliance with the initiative, the excess must be returned during the next two fiscal years by revising tax rates or fee schedules.

There are many uncertainties and ambiguities in the amendment which will require clarification by the legislature or the courts. Accordingly, the District cannot now determine

what the precise effect of the amendment upon its operations and financial obligations will be. The District believes it is presently fulfilling all obligations under Article XIII B.

Proposition 111, entitled the Traffic Congestion Relief and Spending Act of 1990 was approved by the voters on June 5, 1990. Proposition 111 changes the formula which allows for adjustments in the expenditure limits under Article XIII B. Rather than adjusting the limit by the percentage change in the California Consumer Price Index, Proposition 111 adjusts it by the percentage change in California Personal Income per capita. Local governments are given the option of using Personal Income per capita or the change in local assessment rolls for new, nonresidential construction as the basis for adjusting their limits. This change allows local governments' limits to reflect economic growth particularly in rapidly growing communities. Furthermore, Proposition 111 allows the averaging of two years' tax revenues before requiring action regarding excess tax revenues. The District cannot predict the effect that Proposition 111 will have on the District.

Proposition 62

Proposition 62 adopted by the voters in November of 1986, amends certain California statutory provisions to increase the legislative approval and voter approval required to increase taxes imposed by local government entities.

Proposition 62 adds provisions to State statutes which require: (i) two-thirds approval of the legislative body followed by majority approval of the electorate voting in an election in order to permit local governmental entities to impose any general tax (defined as any tax for general governmental purposes); and (ii) two-thirds approval of the electorate voting in an election in order to permit local governmental entities to impose any special tax (defined as any tax other than a general tax). Proposition 62 further imposes provisions regarding the conduct of the elections required to be held.

Proposition 62 requires that any tax imposed by any local governmental entity or state agency on or after August 1, 1985 be ratified by a majority vote of the electorate within two years after the effective date of the initiative in order to be continued on and after November 15, 1988. Proposition 62 also contains a provision which would diminish the allocation of property tax revenue to the extent that the local governmental entity imposed any tax not in compliance with the terms of the initiative. Finally, Proposition 62 also contains restrictions on the imposition of ad valorem taxes, transaction taxes and sales taxes on real property.

The District cannot predict the effect, if any, that Proposition 62 will have on the District and questions regarding interpretation necessarily must be left to future legislative action and judicial decisions.

Report of Direct and Overlapping Debt

The following tabulation estimates the direct and overlapping bonded debt of the District as of February 1, 1993.

Palmdale Water District

1992-93 Assessed Valuation: \$868,101,522 (Land only; after deducting \$225,501,220 redevelopment incremental valuation)

DIRECT AND OVERLAPPING BONDED DEBT: (Based on redevelopment adjusted all property valuation of \$3,021,250,520)

	<u>% Applicable</u>	<u>Debt 2/1/93</u>
Los Angeles County	0.684%	\$ 556,263
Los Angeles County Building Authorities	0.684	14,104,942
Los Angeles County Superintendent of Schools		
Certificates of Participation	0.684	148,530
Los Angeles County Flood Control District	0.149	159,554
Los Angeles County Flood Control District		
Certificates of Participation	0.149	56,225
Antelope Valley Union High School District		
Certificates of Participation	29.657	9,576,245
Palmdale School Certificates of Participation	73.373	7,392,330
Other School Districts	Various	122,337
City of Palmdale Certificates of Participation	58.395	10,432,267
Palmdale Water District	100.	950,000 (1)
Antelope Valley Hospital District Certificates		
of Participation	29.833	15,131,298
Other Special Districts	Various	174,885
1915 Act Bonds and Community Facilities Districts	Various	<u>2,236,224</u>
TOTAL DIRECT AND OVERLAPPING BONDED DEBT		\$61,041,100 (2)

(1) Excludes revenue certificates of participation to be sold.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

<u>Ratios to Assessed Valuation:</u>	<u>Land Only</u>	<u>All Property</u>
Direct Debt	0.11 %	0.03 %
Total Debt	7.03 %	2.02 %

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/92: \$0

Source: California Municipal Statistics, Inc.

THE CORPORATION

The Corporation is a California Nonprofit Public Benefit Corporation formed by the District on August 23, 1991. The Board of the District serves as the Board of Directors of the Corporation. No assets of the Corporation have been pledged, or are available, to pay the Certificates.

STATE OF CALIFORNIA FINANCES

The State had an estimated budget difference of \$10.7 billion between anticipated revenues and the amount expected it would require to continue all programs at their current levels, rebuild a reserve for emergencies and eliminate the deficit from fiscal year 1991/1992. On September 2, 1992 a budget was enacted by the State; the budget reduced certain expenditures and reallocated tax revenues from California special districts to provide money for school funding.

Along with the newly enacted budget for the State, Senate Bill No. 844 ("SB 844") was enacted. SB 844 reallocates from most special districts their share of *ad valorem* property taxes in an amount equal to 35% of the *ad valorem* property tax such special districts would have received during Fiscal Year 1992/1993, if not for SB 844. However, the amount reallocated cannot exceed 10% of the revenues of the special district. SB 844 also provides that the county auditors will report the amount shifted from the special districts in January and then adjust the computation if necessary to yield the \$375 million for school funding, but not to exceed 40% of any one special district's share of the *ad valorem* property taxes and in no case more than 10% of the revenues of the special district. It is expected that the \$375 million threshold for school funding has not been reached and that the state will reallocate additional moneys from special districts up to the maximum amount permitted by SB 844.

On December 10, 1992, several special districts (the "Plaintiffs") filed a lawsuit with the State Supreme Court (the "Supreme Court") seeking to overturn the effects of SB 844. The Supreme Court directed the lawsuit to the State Court of Appeal (the "Appeal Court"). The Appeal Court rejected the Plaintiffs arguments and directed the lawsuit to the Supreme Court. The District cannot predict the outcome of the lawsuit.

The District has projected futures Net Revenues by excluding moneys reallocated due to SB 844. See "**THE DISTRICT**" herein. There can be no assurance that the Net Revenues of the District will not be adversely impacted due to any future reallocation of revenues which might be imposed by the State.

Future Legislation

Governor Wilson's budget summary for fiscal year 1993/94 proposes shifting \$2.075 billion in property tax revenues from cities, counties and special districts to school and community college districts. The budget proposes eliminating \$150 million in property tax allocations to enterprise special districts, excluding transit and hospital districts. The District, may experience a further reduction in revenues attributable to allocation of *ad valorem* property taxes if the Governor's proposal were to be enacted. The District cannot predict the outcome of the Governor's proposal or the effect on its revenues.

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief outline of certain provisions contained in the Installment Purchase Agreement, the Trust Agreement and the Assignment Agreement. This summary does not purport to be complete or definitive, and it is qualified in its entirety by reference to the full terms of each of the aforementioned documents. Reference is directed to said documents for the complete text thereof. Copies of said documents are available from the Trustee upon the payment of a charge for copying, handling and mailing.

The Installment Purchase Agreement

Term

The term of the Installment Purchase Agreement is for a period commencing March 1, 1993, terminating upon the occurrence of either (a) payment in full of all Installment Purchase Payments pursuant to the Installment Purchase Agreement but not longer than October 1, 2025, or (b) a default by the District under the Installment Purchase Agreement and termination pursuant thereto.

Construction of Project

The cost of the Project will be paid from a portion of the proceeds from the sale of the Certificates. The District will supervise and use its best efforts to cause the completion of the Project by March 1, 1996, all as agent of the Corporation. Any moneys remaining after the completion of the Project may, at the direction of the District, be spent for additional projects or be transferred to the Installment Purchase Payment Fund.

Installment Purchase Payments

The District is required to advance moneys derived from Net Revenues of the District to pay the Installment Purchase Payments. The Installment Purchase Payments represent payment for the title to the Project. As additional consideration for the purchase of the Project, the District has agreed to pay such additional amounts due and owing under the Installment Purchase Agreement or the Trust Agreement, including but not limited to, amounts payable to the Trustee as may be necessary to make up any deficiency in the Reserve Fund and/or the Rebate Fund (defined hereinafter).

Notwithstanding any dispute between the District and the Corporation, the District will make each and all Installment Purchase Payments when due and will not withhold any Installment Purchase Payments pending the final resolution of such dispute. The District will not assert any right of set-off or counterclaim against its obligation to make Installment Purchase Payments as set forth in the Installment Purchase Agreement.

Maintenance, Improvements, Taxes and Utilities

Subject to the limitations contained in the Littlerock Dam Agreement, the District, at its own expense, will operate, maintain and preserve the Project in good repair, and the Corporation has no responsibility for such repair. The District has the power to make improvements to the Project. The District must pay or cause to be paid all taxes and utility charges in connection with the Project.

Covenant to Budget and Appropriate

The District has covenanted that it will include in its annual budget and appropriate for the following fiscal year the Installment Purchase Payments and other amounts due under the Installment Purchase Agreement and the Trust Agreement. The Installment Purchase Payments and other amounts due under the Installment Purchase Agreement, any obligations secured on a parity with the Certificates and the Trust Agreement are a special obligation of the District secured by an irrevocable and first lien of, and payable from, Net Revenues of the District. The District will furnish to the Trustee, as assignee of Corporation, a certificate stating that District has complied with such covenant no later than November 1st of each year. The covenants to budget and appropriate on the part of the District are deemed by the District to be duties imposed by law and it shall be the duty of each and every public official of the District to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform the covenants and agreements in this Agreement agreed to be carried out and performed by the District. The Installment Purchase Payments and payments of other amounts due under the Installment Purchase Agreement and the Trust Agreement shall be made unconditionally, without abatement, irrespective of any interference in the use by the District of the Project. The District shall provide the Insurer, as long as the Insurance Policy is in effect, on an annual basis, copies of the District's audited financial statements and annual budget.

Insurance

The Installment Purchase Agreement requires the District to maintain or cause to be maintained the following insurance against risk of physical damage to Project structures and other risks for the protection of the Certificate holders, the Corporation, and the Trustee:

- (i) Insurance against loss or damage to any structures constituting any part of the Project, as is customarily maintained with respect to works and properties of a like character, which may be carried in conjunction with any other policies of fire and extended coverage insurance;
- (ii) Public Liability and Property Damage. Minimum coverages shall be \$100,000 for personal injury or death per person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and property damage insurance in the minimum coverage of \$1,000,000 per event, respectively, the property damage being subject to a maximum \$5,000 deductible per accident. Such insurance may be maintained in the form of a minimum \$3,000,000 single limit policy covering all such risks. Such insurance may be carried in conjunction with any other liability insurance coverage or required to be carried by the District;
- (iii) Worker's compensation insurance issued by a responsible carrier authorized under the laws of the State to insure employers against liability for compensation under the Worker's Compensation Insurance Safety Act now in force in the State, or any act hereafter enacted as an amendment or supplement thereto or in lieu thereof, such worker's compensation insurance to cover all persons employed in connection with the Project and to cover full liability for compensation under any such act aforesaid, based upon death or bodily injury claims made by, for or on behalf of any person incurring or suffering injury or death during or in connection with the Project or the business of the District.

All policies of insurance (except the policy of public liability and property damage insurance) must provide that the Net Proceeds thereof shall be payable to the Trustee. The Net Proceeds of property damage insurance shall be (i) deposited in the Project Fund to be applied to rebuild the Project or (ii) deposited in the Installment Payment Fund to make payments of principal and interest due with respect to the outstanding Certificates. The District has agreed to annually furnish evidence to the Trustee of compliance with the insurance requirements set forth in the Installment Purchase Agreement.

If at any time the District shall be unable to obtain or maintain insurance, to the extent required above, on reasonable terms, either as to amounts or as to risks, the failure to maintain such insurance shall not constitute a default under the Installment Purchase Agreement if the District shall cause the employment of an independent insurance consultant having a favorable reputation for skill and experience in such matters, for the purpose of reviewing such insurance requirements and making recommendations respecting the types, amounts and provisions of reasonably obtainable insurance, including self-insurance, or the establishment of other generally accepted forms of alternative protection that should be carried in lieu thereof, or the infeasibility of obtaining insurance, and if the District shall comply with the recommendations made in such report. A signed copy of the report of the insurance consultant shall be filed with the Trustee and Corporation, and the insurance requirements specified in section 403 of the Installment Purchase Agreement shall be deemed to be modified to conform with the recommendations in such report.

Any Net Proceeds of any such insurance relating to the loss or destruction of any part of the Project shall be applied and disbursed as follows.

If the District determines that such Net Proceeds are sufficient to repair, reconstruct or replace the damaged or destroyed portion of the Project, which determination shall be evidenced by a certificate executed by an authorized officer of the District and filed with the Trustee as assignee of Corporation, then the District shall cause such portion of the Project to be repaired, reconstructed or replaced to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said Net Proceeds, and the District shall direct the Trustee to disburse said Net Proceeds for such purpose. Any balance of said Net Proceeds not required for such repair, reconstruction or replacement shall be transferred by the Trustee to be applied as prepayment of Installment Purchase Payments in accordance with the Trust Agreement, except that no such prepayment shall be in an amount less than \$5,000. The District shall be obligated to continue to make Installment Purchase Payments required by the Installment Purchase Agreement notwithstanding accident to or destruction of all or a portion of the Project unless and until the Certificates and all amounts owed hereunder and under the Trust Agreement by the District are paid in full.

In the event that such Net Proceeds are not sufficient to repair, reconstruct or replace the damaged or destroyed portion of the Project, as evidenced by a certificate executed by an authorized officer of the District and filed with the Trustee, the District shall direct the Trustee to apply such Net Proceeds, to the prepayment in full, on the next succeeding Payment Date, of the balance of the Installment Purchase Payments, or if such Net Proceeds are insufficient to prepay the balance of the Installment Purchase Payments in full then the District shall direct the Trustee to apply such Net Proceeds to prepayment of Installment Purchase Payments except that no such prepayment shall be in an amount less than \$5,000.

Condemnation

In the event of the exercise of condemnation with respect to the Project or any portion thereof, if the District determines that such condemnation has not materially affected the operation of the Project or the ability of the District to meet any of its obligations under the Installment Purchase Agreement, as set forth in a certificate executed by an authorized officer of the District and filed with the Trustee, as assignee of Corporation, and if such Net Proceeds are insufficient to enable the District to prepay Installment Purchase Payments in full on the next succeeding Payment Date, the District shall direct the Trustee to retain such Net Proceeds in the Installment Purchase Payment Fund and to cause such Net Proceeds to be applied as a credit against the next succeeding Installment Purchase Payments.

If the District determines that such condemnation has materially affected the operation of the Project or the ability of the District to meet any of its obligations under the Installment Purchase Agreement as set forth in a certificate executed by an authorized officer of the District and filed with the Trustee, as assignee of Corporation, or if such Net Proceeds are sufficient to enable the District to prepay Installment Purchase Payments in full on the next succeeding Payment Date, the District shall direct the Trustee to apply such Net Proceeds to the prepayment in full or (to the extent that such condemnation Pertains only to a portion of the Project) in part on the next succeeding Installment Payment Date of Installment Purchase Payments except that no such prepayment shall be in an amount less than \$5,000.

The District shall be obligated to continue to make Installment Purchase Payments required by the Installment Purchase Agreement notwithstanding condemnation of all or a portion of the Project unless and until the Certificates and all amounts owed hereunder and under the Trust Agreement by the District are paid in full.

Assignment

The Corporation has assigned to the Trustee, pursuant to the Assignment Agreement, its rights under the Installment Purchase Agreement, including the right to receive and enforce payment of the Installment Purchase Payments to be made by the District.

Events of Default and Remedies

The following constitute "events of default" under the Installment Purchase Agreement:

- (i) failure by the District to make any payment required under the Installment Purchase Agreement at the time specified therein;
- (ii) failure by the District to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in (i) above, for a period of thirty (30) days after written notice thereof by the Trustee, as assignee for the Corporation; and
- (iii) certain events relating to bankruptcy of the District or the inability of the District to pay its debts.

Upon the occurrence and continuance of any event of default the Corporation shall have the right, with the consent of the Insurer, to (a) declare all principal components of the unpaid Installment Purchase Payments, plus accrued interest, to be immediately due and payable and (b) to take whatever action at law or in equity may appear necessary or desirable to accelerate the collection of Installment Purchase Payments or enforce its rights under the Installment

Purchase Agreement. The Corporation has assigned its rights under the Installment Purchase Agreement to the Trustee under the Trust Agreement, including its rights in the event of default.

The Trust Agreement

Trustee

The Trustee is appointed pursuant to the Trust Agreement to execute and deliver the Certificates and, upon direction of the District, to receive, hold, invest and disburse the moneys paid to it pursuant to the Installment Purchase Agreement for credit to the various funds and accounts established by the Trust Agreement. The Trustee will act in a ministerial and passive capacity, except to the extent that, in the event of a default either in payment of the Installment Purchase Payments or in other obligations of the District under the Installment Purchase Agreement, the Trustee shall exercise the rights of the Corporation with respect to such default.

Funds

The Trust Agreement creates the Series 1993A Project Fund (the "Project Fund"), the Series 1993A Installment Purchase Payment Fund (the "Installment Purchase Payment Fund"), the Series 1993A Redemption Fund (the "Redemption Fund"), the Series 1993A Reserve Fund (the "Reserve Fund") and the Series 1993A Rebate (the "Rebate Fund") to be held by the Trustee. Payment for the costs of the Project will be made from disbursements from the Project Fund upon direction of the District as agent of the Corporation. Upon payment of the total cost of the Project, any moneys remaining in the Project Fund are required to be transferred to the Installment Purchase Payment Fund and applied to pay the Installment Purchase Payments as such become due.

Moneys held by the Trustee under the Trust Agreement are required to be invested and reinvested in Permitted Investments. The term "Permitted Investments" is defined in the Trust Agreement to mean:

- A. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations 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 and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):
 - 1. U.S. Export-Import Bank ("Eximbank")
Direct obligations or fully guaranteed certificates of beneficial ownership;
 - 2. Farmers Home Administration ("FHA")
Certificates of beneficial ownership;
 - 3. Federal Financing Bank;
 - 4. Federal Housing Administration Debentures ("FHA");
 - 5. General Services Administration
Participation certificates;

6. Government National Mortgage Association ("GNMA" or "Ginnie Mae")
GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations
 7. U.S. Maritime Administration
Guaranteed Title XI financing;
 8. U.S. Department of Housing and Urban Development ("HUD")
Project Notes
Local Authority Bonds
New Communities Debentures - U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds - U.S. government guaranteed
public housing notes and bonds.
- 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 are only permitted if they have been stripped by the agency itself):
1. Federal Home Loan Bank System
Senior debt obligations;
 2. Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac")
Participation Certificates
Senior debt obligations;
 3. Federal National Mortgage Association ("FNMA" or "Fannie Mae")
Mortgage-backed securities and senior debt obligations;
 4. Student Loan Marketing Association ("SLMA" or "Sallie Mae")
Senior debt obligations;
 5. Resolution Funding Corp. ("REFCORP") obligations.
- D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by Standard & Poor's Corporation ("S&P") of AAAM-G; AAAM; or AAm.
- E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.
- F. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC or FSLIC.
- G. Investment Agreements, including guaranteed investment contracts, acceptable to the Insurer.
- H. Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's Investors Service ("Moody's") or "A-1" or better by S&P.

- I. Bonds or notes issued by any state or municipality which are rated by Moody's or S&P in one of the two highest rating categories assigned by such agencies.
- 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 of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.
- K. Repurchase agreements ("Repos") provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date.

Repurchase Agreements must satisfy the following criteria or be approved by the Insurer.

- 1. Repos must be between the municipal entity and a dealer bank or securities firm:
 - a. Primary dealers on the Federal Reserve reporting dealer list which are rated "A" or better by S&P and Moody's, or
 - b. Banks rated "A" or above by S&P and Moody's.
- 2. The written Repo contract must include the following:
 - a. Securities which are acceptable for transfer are:
 - (1) Direct U.S. governments, or
 - (2) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FMAC);
 - b. The term of the Repo may be up to 30 days;
 - c. The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).
 - d. Valuation of Collateral:
 - (1) The securities must be valued weekly, market-to-market at current market price plus accrued interest -
 - (a) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the Repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred. if, however, the securities used as collateral are FNMA or FMAC, then the value of collateral must equal 105%.

3. Legal opinion which must be delivered to the municipal entity:
 - a. Repo meets guidelines under state law for legal investment of public funds.
- L. Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If, however, the issue is only rated by S&P, the pre-refunded bonds must have been pre-refunded with cash, direct U. S. or U. S. guaranteed obligations, or "AAA" rated pre-refunded municipals to satisfy this condition.
- M. Shares in the Franklin Adjustable U.S. Government Securities Fund or any other similar fund invested solely in securities directly guaranteed by the U.S. government or its agencies and rated "AAAF" by S&P or comparable ratings by Moody's.

Rebate Fund

The District will take no action inconsistent with its expectations stated in the tax certificate executed by the District with respect to the Certificates (the "Tax Certificate") and will comply with the covenants and requirements stated therein. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, for payment to the United States Treasury. All amounts on deposit in the Rebate Fund shall be governed by section 711 of the Trust Agreement and the Tax Certificate, unless the District obtains an opinion of a nationally recognized law firm specializing in the area of tax-exempt municipal finance to the effect that the exclusion from gross income of the interest component of the obligation represented by the Certificates will not be adversely affected for federal income tax purposes if such requirements are not satisfied.

Events of Default and Remedies

The following shall be events of default under the Trust Agreement:

- (a) any event of default under the Installment Purchase Agreement;
- (b) failure to make payments of principal, including mandatory sinking fund payments, premium, if any, and interest due with respect to the Certificates when due;
- (c) failure by District to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Trust Agreement, other than as such failure may constitute an event of default under (a) or (b) above, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the defaulting party by any other party hereto or the Owners of not less than five percent (5%) in aggregate principal amount of Certificates outstanding.

Upon the occurrence and continuance of any event of default specified in section 601 of the Installment Purchase Agreement, other than a default pursuant to subsection (b) of such section, the Trustee shall proceed, or upon the occurrence and continuance of any other event of default thereunder or under section 601(b) of the Installment Purchase Agreement, the Trustee may, and upon written request of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Certificates at the time outstanding shall, proceed to exercise the remedies provided to the Corporation in Article VI of the Installment Purchase Agreement,

upon notice in writing to the District and the Corporation. See "**SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - The Installment Purchase Agreement - Events of Default and Remedies**" herein.

In the event the Trustee fails to take sufficient action to eliminate such default, the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Certificates then outstanding may at the direction of the Insurer institute any suit, action, mandamus or other proceeding in equity or at law for the protection or enforcement of any right under the Installment Purchase Agreement or the Trust Agreement if and only if the Owners have first made written request of the Trustee after the rights to exercise such powers of right of action shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers therein granted or granted under the law or to institute such action, suit or proceeding in its name, and, in addition, unless the Trustee shall have been offered reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time.

Amendment

The Trust Agreement may be amended only by agreement among the District, the Trustee and the Corporation but no amendment shall become effective as to the Owners of the Certificates then outstanding without the approval of a majority of the Owners in aggregate principal amount of the Certificates, provided that no such amendment shall impair the right of any such holder to receive his proportionate share of Installment Purchase Payments in accordance with his Certificate. Notwithstanding the foregoing, the Trust Agreement may be amended without the consent of the Owners but only for the purpose of curing any ambiguity, correcting defects, or in regard to questions arising under the Trust Agreement or Installment Purchase Agreement that is not inconsistent with the provisions of either thereof; provided, further, that no amendment shall materially adversely affect the interest of the Owners.

Defeasance

Upon payment of all outstanding Certificates, either at or before maturity, or upon the deposit of money or bills, certificates of indebtedness, notes, bonds, or similar securities which are direct, non-callable obligations of the United States of America, CATS, TIGERS, STRPS or defeased municipal bonds rated "AAA" by S&P or "Aaa" by Moody's with the Trustee sufficient with other available funds to retire the outstanding Certificates at or before maturity, upon giving or providing for such notice, the Trust Agreement will at the election of the District be terminated subject to the payment of the Certificates.

The Assignment Agreement

Under the Assignment Agreement between the Corporation and the Trustee, the Corporation has assigned to the Trustee for the benefit of the holders of the Certificates (i) its rights to amounts payable by the District under the Installment Purchase Agreement, (ii) its rights to receive proceeds of condemnation of, and insurance on, the Project and (iii) its rights to enforce amounts payable upon default. The Installment Purchase Payments are not secured by, and the Owners have no security interest, in or mortgage on, the Project.

TAX EXEMPTION

In the opinion of Stradling, Yocca, Carlson & Rauth, a Professional Corporation, Newport Beach, California, ("Special Counsel"), under existing statutes, regulations, rulings and judicial decisions, the portion of the Installment Purchase Payments designated as and comprising interest is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, the portion of the Installment Purchase Payments designated as and comprising interest is exempt from State of California personal income tax. Special Counsel notes that, with respect to corporations, the portion of the Installment Purchase Payments designated as and comprising interest may be included as an adjustment in the calculation of alternative minimum taxable income which may effect the alternative minimum tax liability of such corporations. In addition, the difference between the initial public offering price of a Certificate and the amount payable at maturity with respect to a Certificate constitutes original issue discount, and the amount of original issue discount that accrues to the owner of the Certificate is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

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

Special Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Special Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Although Special Counsel has rendered an opinion that the portion of the Installment Purchase Payments constituting interest is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the Certificates and the accrual or receipt of interest with respect to the Certificates may otherwise affect the tax liability of certain persons. Special Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Certificates, all potential purchasers should consult their tax advisors with respect to collateral tax consequences with respect to the Certificates.

Should the interest with respect to the Certificates become includable in gross income for federal income tax purposes, the Certificates are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Trust Agreement.

CERTAIN LEGAL MATTERS

Special Counsel, will render an opinion with respect to the validity and enforceability of the Installment Purchase Agreement and the Trust Agreement and as to the validity of the Certificates. Copies of such approving opinion will be available at the time of delivery of the

Certificates. Certain legal matters will be passed upon for the Underwriter by Nossaman, Guthner, Knox & Elliott, Los Angeles, California and for the District by Lagerlof, Senecal, Drescher & Swift, Pasadena, California.

ABSENCE OF MATERIAL LITIGATION

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the execution or delivery of the Certificates, the Installment Purchase Agreement, the Trust Agreement or in any way contesting or affecting the validity of the foregoing or any proceedings of the District taken with respect to any of the following.

RATINGS

Moody's and S&P have assigned ratings of "Aaa" and "AAA", respectively, to the Certificates, with the understanding that, upon delivery of the Certificates, the Policy will be issued by the Insurer. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007; Standard & Poor's Corporation, 25 Broadway, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

UNDERWRITING

The Certificates are being purchased by A. G. Edwards & Sons Inc. (the "Underwriter") pursuant to a contract by and between the District and the Underwriter (the "Purchase Contract"). The Underwriter has agreed to purchase the Certificates at a purchase price of \$15,818,419.15 plus accrued interest. The Purchase Contract provides that the Underwriter will purchase all of the Certificates if any are purchased, the obligations to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions.

MISCELLANEOUS

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statement of the contents thereof.

Any statements 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 District and the purchasers or holders of any of the Certificates.

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

Palmdale Water District

By: /s/ Leslie O. Carter
President of the Board of Directors

Palmdale Water District Public Facilities Corporation

By: /s/ Leslie O. Carter
President of the Board of Directors

APPENDIX A

General Economic Data of the County of Los Angeles

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APPENDIX A

General Economic Data of the County of Los Angeles

The following information relating to the City of Palmdale, California (the "City") and the County of Los Angeles (the "County") is supplied solely for purposes of information. The District's boundaries include nearly all of the City as well as a large portion of unincorporated land within the County. Neither the faith and credit, nor the taxing power of the District, the City, the County, the State of California, or any of its political subdivisions is pledged to the payment of the Bonds.

Introduction

The City encompasses approximately 65 square miles within the Antelope Valley (the "Valley") and is located in the northeast area of the County. The City is 60 miles north of downtown Los Angeles. It is situated in the high desert, at an elevation of 2,600 ft., with a pleasant climate and an average mean temperatures of 56 degrees fahrenheit in January and 98 degrees fahrenheit in July.

The City was incorporated on August 24, 1962 as a general law city and uses the Council-Administrator form of government. The City Administrator serves at the pleasure of the City Council to administer the City's affairs and to carry out policy established by the City Council.

The Valley and the Los Angeles Basin are the two major economic zones which influence the economic outlook for the District. The Antelope Valley encompasses over 3,000 square miles. It generally extends from the northern end of the San Gabriel Mountains northwards to Randsberg and Johannesberg in Kern County, and from the eastern region of Los Angeles and Kern Counties eastward to the western end of the Tehachapi Mountains. The southern portion of the Valley is significantly urbanized and focused around the City of Lancaster and the City. These cities accommodate nearly half of Antelope Valley's population and are located close to the huge metropolitan employment center of the Los Angeles Basin.

Population

Approximately 84,200 people reside in the City, approximately 9.0 million people reside in the County. The County is California's most populous County with approximately 30.0% of the State's population residing within its borders. The following chart illustrates the historical growth in the City's and the County's population.

<u>YEAR</u> <u>(January 1)</u>	<u>CITY OF</u> <u>PALMDALE</u>	<u>LOS ANGELES</u> <u>COUNTY</u>	<u>STATE OF</u> <u>CALIFORNIA</u>
1987	33,100	8,418,600	27,338,000
1988	39,050	8,555,900	28,019,000
1989	45,850	8,650,300	28,662,000
1990	61,800	8,837,480	29,683,200
1991	78,000	8,988,800	30,321,000
1992	84,200	9,087,400	30,989,000

Source: State Department of Finance.

Effective Buying Income

Effective Buying Income is designated by Sales & Marketing Management as personal income less personal tax and nontax payments. Personal income is the aggregate of wages and salaries, other labor income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of nonfarm dwellings), dividends paid by corporations, personal interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state, and local), nontax payments (such as fines, fees, penalties), and personal contributions for social insurance. Effective Buying Income is a bulk measurement of market potential. It indicates the general ability to buy and is essential in comparing, selecting, and grouping markets on that basis.

The following table demonstrates the growth in estimated median Effective Buying Income for the County and the City:

LOS ANGELES-LONG BEACH METRO AREA ESTIMATED ANNUAL MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME

	<u>1990</u>		<u>1991</u>	
	<u>Effective Buying Income</u>	<u>Percentage of households over \$50,000</u>	<u>Effective Buying Income</u>	<u>Percentage of Households over 50,000</u>
City of Palmdale	\$36,061	28.7%	\$43,094	38.7%
County of Los Angeles	32,976	30.3	36,038	32.8

Source: Sales & Marketing Management Magazine.

The following table demonstrates the growth in estimated annual median effective buying income for the County and the State of California (the "State"):

**LOS ANGELES-LONG BEACH METRO AREA
ESTIMATED ANNUAL
MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME**

	Effective Buying Income	Percent of Households Over \$50,000
<u>1991</u>		
County	\$36,038	32.8
State	36,943	33.3
<u>1990</u>		
County	\$32,976	30.3 %
State	33,342	30.1
<u>1989</u>		
County	\$30,489	27.3 %
State	30,713	26.5
<u>1988</u>		
County	\$29,561	25.8 %
State	30,088	25.5
<u>1987</u>		
County	\$30,059	26.2 %
State	30,537	25.8

Source: "Survey of Buying Power," Sales & Marketing Management Magazine.

Development

In recent years, Antelope Valley has accounted for 1/6th of total housing construction in the County, even though the Valley's population is less than two percent of the County total. As a result of the relatively moderate cost of land in the Valley, single family detached housing is affordable when compared with most areas of the County. The availability of reasonably affordable housing in the Antelope Valley was an important factor in the District's population growth during the 1980's. More recent data indicate that new residential permits and home sales slowed considerably during the last three years. Below are valuations of building permits in the City and County from 1986 through November of 1992.

BUILDING PERMIT VALUATIONS for The City of Palmdale (in thousands)

Type	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992¹</u>
Residential						
New Single Dwellings	169,444	275,265	752,978	67,808	117,667	149,608
Multi -Dwellings	13,147	9,140	7,851	943	1,041	831
Additions, Alterations	<u>1,101</u>	<u>1,403</u>	<u>2,835</u>	<u>4,023</u>	<u>2,669</u>	<u>4,155</u>
Total Residential	183,692	285,809	763,664	72,774	121,378	154,594
Non-Residential						
New Commercial	7,481	15,900	28,631	63,248	25,914	15,483
New Industrial	2,884	2,779	20,858	2,092	1,528	2,324
Other	6,153	7,925	11,944	11,848	8,645	14,175
Additions, Alterations	<u>3,418</u>	<u>3,173</u>	<u>6,755</u>	<u>12,395</u>	<u>8,858</u>	<u>19,408</u>
Total Non-Residential	19,936	29,777	68,188	89,584	44,944	51,390
TOTAL VALUATION	<u>203,629</u>	<u>315,585</u>	<u>831,852</u>	<u>162,358</u>	<u>166,321</u>	<u>205,984</u>

1. January through November (inclusive) data.

Source: Economic Science Corporation.

BUILDING PERMIT VALUATIONS
for
The County of Los Angeles
(in thousands)

Type	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>¹
Residential						
New Single Dwellings	2,072,476	2,395,364	3,423,322	1,630,183	1,256,091	1,052,147
Multi-Dwellings	2,287,698	2,118,463	1,823,456	1,346,701	729,587	348,377
Additions, Alterations	<u>724,125</u>	<u>924,924</u>	<u>1,074,206</u>	<u>1,108,880</u>	<u>937,214</u>	<u>841,320</u>
Total Residential	5,084,299	5,438,750	6,320,984	4,085,764	2,922,891	2,241,844
Non-Residential						
New Commercial	1,863,922	2,373,065	2,164,569	1,617,325	946,548	514,982
New Industrial	422,074	454,268	316,438	281,550	136,517	73,932
Other	440,982	445,063	464,706	433,393	327,977	256,751
Additions, Alterations	<u>1,277,394</u>	<u>1,370,221</u>	<u>1,431,503</u>	<u>1,472,104</u>	<u>1,354,726</u>	<u>1,173,849</u>
Total Non-Residential	4,004,373	4,642,617	4,377,217	3,804,372	2,765,738	2,019,514
TOTAL VALUATION	<u>9,088,672</u>	<u>10,081,367</u>	<u>10,698,200</u>	<u>7,890,136</u>	<u>5,688,629</u>	<u>4,261,514</u>

¹. January through November (inclusive) data.

Source: Economic Science Corporation.

Employment

Prior to the 1940's, the industrial mainstay of Antelope Valley was agriculture -- primarily alfalfa. Today agriculture, still an important part of the economy, has moved into dryland grain as well as irrigated fruits, vegetables and poultry production. The commercial and military aircraft industries have seen the largest growth in this region. The Air Force's Plant 42 in Palmdale is one of the largest and most sophisticated aircraft manufacturing facilities in the west. Edwards Air Force Base, which provides a variety of testing services for several of the nation's important military aircraft, currently employs approximately 14,000 civilians and military personnel. According to the New York Times, while the aerospace-oriented activities are important to the Antelope Valley's employment, the area has begun to diversify, particularly in the direction of retail and financial services with new department stores, restaurants, motels, hotels, health care and other services.

The following table shows civilian employment and unemployment in the labor market.

LOS ANGELES COUNTY
Civilian Labor Force
Employment, Unemployment, and Unemployment Rate¹
Annual Average

<u>Year</u>	<u>Labor Force</u>	<u>Employment²</u>	<u>Unemployment³</u>	<u>Unemployment Rate⁴</u>
1991	4,504,000	4,142,800	362,000	8.0%
1990	4,427,800	4,172,800	255,000	5.8
1989 ⁵	4,231,100	4,034,300	196,800	4.7
1988 ⁶	4,163,500	3,959,900	203,600	4.9
1987	4,234,400	3,985,800	248,600	5.9
1986	4,100,000	3,827,000	274,000	6.7

1992 Monthly Labor Force and Employment Data

<u>Month</u>	<u>Labor Force</u>	<u>Employment²</u>	<u>Unemployment Number³</u>	<u>Percent⁴</u>
January	4,498,000	4,111,000	387,000	8.0%
February	4,549,000	4,098,000	451,000	9.9
March	4,461,000	4,058,000	403,000	9.0
April	4,485,000	4,167,000	318,000	7.1
May	4,520,000	4,078,000	442,000	9.8
June	4,570,000	4,123,000	447,000	9.8
July	4,609,000	4,091,000	518,000	11.2
August	4,644,000	4,148,000	496,000	10.7
September	4,576,000	4,100,000	476,000	10.4
October	4,550,000	4,118,000	433,000	9.5
November	4,512,000	4,086,000	426,000	9.4

1. Civilian labor force, employment and unemployment are by place of residence (see note below).
2. Includes persons involved in labor-management trade disputes.
3. Includes all persons without jobs and actively seeking work.
4. The unemployment rate is computed from unrounded data; it may differ from rates using rounded figures in this table.
5. Beginning with April, 1988 there was a change in the methodology used to develop unemployment statistics. Therefore, data gathered prior to this date is not comparable.
6. Beginning in November 1989 there was a change in the methodology used to develop labor force statistics. Because of this change, data from November 1989 forward are again comparable to the data for January 1983 through March 1988. However, these data are not strictly comparable to the data for April 1988 through October 1989.

Source: State Employment Development Department and Los Angeles Times.

**LARGEST EMPLOYERS HEADQUARTERED
IN
LOS ANGELES COUNTY**

<u>COMPANY</u>	<u>INDUSTRY</u>	<u>CALIFORNIA EMPLOYMENT</u>
Lockheed Corporation	Aerospace	41,100
Rockwell International	Aerospace	34,000
Vons	Retail Foods	32,600
Northrop Corporation	Aerospace	30,900
Pacific Enterprises	Utility	27,525
Carter Hawley Hale	Merchandizing	26,000
Security Pacific	Financial Services	20,000
SCEcorp	Utilities	16,256
Walt Disney	Entertainment	15,500
Times Mirror	Media/Communications	13,600
First Interstate Bancorp	Financial Services	11,648
Hilton Hotels	Resort/Leisure	10,000 ¹
Castle & Cooke	Food Products	8,680
National Medical Enter.	Health Care	8,067
Teledyne	Manufacturing	8,000
Litton Industries	Hi-Tech/Electronics	7,713

1. 1989 figure.

Source: Los Angeles Times "The Best Performing Companies in California" published April 30, 1991.

**LARGEST NON-MANUFACTURING EMPLOYERS
IN ANTELOPE VALLEY
AS OF AUGUST, 1992**

<u>COMPANY</u>	<u>INDUSTRY</u>	<u>NUMBER OF EMPLOYEES</u>
Edwards Air Force Base civilian/military	Aerospace Research	14,396
Antelope Valley Hospital Medical Center	Medical/Hospital (244 beds)	1,490
Lancaster School District	Elementary Schools	900
Lancaster Business Park	Business/Industrial Park	1,058
Antelope Valley Union High School District	High Schools	890
High Desert Hospital	Medical/Hospital (173 beds)	685
Lancaster Community Hospital	Medical/Hospital (132 beds)	600
Federal Aviation Administration	Air Traffic Control/Maint.	600
Antelope Valley College	Education	535
Antelope Valley Bus Co.	Transportation	330
Desert Inn	Hotel/Restaurant/Caterer	200

Source: Lancaster Economic Development Corporation.

**LARGEST MANUFACTURING EMPLOYERS
IN ANTELOPE VALLEY
AS OF JUNE, 1992**

<u>COMPANY</u>	<u>INDUSTRY</u>	<u>NUMBER OF EMPLOYEES</u>
Northrop Aircraft Corporation	Military Aircraft	3,000
Lockheed Aircraft Company	Commercial Aircraft	1,700
Rockwell International	Aircraft/Aerospace	1,449
NASA	Aircraft/Aerospace	1,100
U.S. Borax and Chemical Company	Chemicals	790
California Portland Cement	Cement	149

Source: Lancaster Economic Development Corporation.

Transportation

City of Palmdale

Palmdale's close proximity to several major freeways, including State Route 14 and State Route 138 gives the District access to regional national and international markets. Greyhound and Trailways provide bus service to the District. Antelope Valley Bus Service provides commuter, charter and local transit service. Over 8 truck freight services serve the city. In addition, Southern Pacific Transportation provides transcontinental train service.

The District is located within 45 miles of Burbank International Airport and within 70 miles of Los Angeles International Airport and is also served by a local airport. Currently, two commercial airlines offer service from Palmdale with daily flights to Las Vegas, Phoenix, Los Angeles and Palm Springs.

As the air travel needs of the area expand, the Los Angeles Department of Airports may develop the 17,000 acres of land it owns in Palmdale or may jointly use the facilities at Plant 42 with the U.S. Air Force.

Los Angeles County

Los Angeles County is one of the world's leading transportation centers. Extensive air, ship, rail and highway facilities serve residents, visitors and industry. All transcontinental airlines and many international carriers serve the Los Angeles area. The major air terminals are Los Angeles International Airport and Glendale-Burbank-Pasadena Airport (Hollywood-Burbank Airport). Los Angeles International Airport is the third busiest and one of the most modern air terminals in the nation.

The Ports of Los Angeles and Long Beach are contiguous to each other and together serve as the nation's largest harbor complex in terms of tonnage and the leading West Coast port in terms of passenger service. Both ports are owned and operated by their respective cities. Nearly 8,100 vessels a year call at the ports.

The Port of Los Angeles is one the world's largest man-made harbors. It covers over 7,500 acres of land and water with 28 miles of waterfront. Its facilities contain 25 marine cargo terminals, including eight container terminals, and 195 acres of shed, warehouse and platform space. Over 80 shipping lines and agents operate at the Port. The Port of Long Beach ranks as the leading foreign trade port on the West Coast. The Port's facilities include seven container terminals covering approximately 626 acres. All 68 berths are within three miles of the ocean via a main channel, which can accommodate supertankers of 165,000 tons gross weight.

Together the ports of Long Beach and Los Angeles represent the fastest growing port complex in the United States. Cargo passing through the two ports is expected to increase from 66 million metric tons in 1985 to more than 197 million metric tons in the year 2020. A proposed Consolidated Transportation Corridor will coordinate cargo traffic between the port facilities and major highway and rail links.

The rapid growth of the two ports continues to provide a major economic impact on the region. An estimated \$39 million in direct and indirect business revenues are annually generated and over 363,000 jobs created by the manufacture, transportation and sale of cargo processed by the two ports. It is projected that an additional 110,000 jobs will be generated in trade related industries by the year 2020.

Railway freight service is provided in the County by three transcontinental railroads: the Atchison, Topeka and Santa Fe; the Union Pacific and the Southern Pacific. Railway passenger service is provided by Amtrak. The main source of public transportation is bus service. The largest transit system is operated by the Southern California Rapid Transit District which has more than 2,000 miles of local and interurban routes serving most of the County's cities and communities.

Education

Public instruction in the District is provided, among others, by the Palmdale School District and the Antelope Valley Union High School District. The District is also served by the Antelope Valley Community College.

The District is also close to many well-known universities in the Los Angeles area. These include the University of California at Los Angeles, California State University of Los Angeles, Los Angeles City College, University of Southern California and California State Polytechnic University at Pomona.

Community Health Facilities

Hospitals providing health care to the District include: the Antelope Valley Hospital Medical Center and the Palmdale Hospital Medical Center.

Police and Fire Service

The Los Angeles County Sheriff Department provides police protection within the District and in addition provides special programs designed to promote crime reduction through community involvement and education. The Los Angeles County Fire Department maintains two fire stations in the District providing fire protection services.

TEN LARGEST TAXPAYERS

The ten largest taxpayers in the County as shown on the 1990-91 secured tax roll and the approximate amount of their aggregate levies for all taxing jurisdictions within the County are shown below.

<u>COMPANY NAME</u>	<u>TOTAL TAX LEVY 1990-91</u>
Pacific Bell	\$48,434,114
Southern California Edison Company	40,814,286
GTE California, Inc.	33,068,576
Southern California Gas Company	20,416,080
Hughes Aircraft Company	17,079,508
Northrop Corporation	13,916,348
Chevron USA Inc.	13,013,864
Shuwa Investments Corporation	11,824,517
McDonnell Douglas Corporation	10,757,062
Atlantic Richfield	9,959,110

Source: Los Angeles County Treasurer and Tax Collector.

The City

The following table demonstrates the growth in the number of business permits and taxable transactions in the City.

CITY OF PALMDALE TAXABLE TRANSACTIONS (in thousands)

<u>Year</u>	<u>Taxable Transactions</u>	<u>Number of Permits</u>
1991	\$ 462,063	1,849
1990	368,392	1,428
1989	316,964	1,170
1988	248,524	982

Source: State Board of Equalization.

The County

The following table demonstrates the growth in the number of business permits and taxable sales in the County:

LOS ANGELES COUNTY¹
TAXABLE TRANSACTIONS
(in thousands)

<u>Year</u>	<u>Taxable Transactions</u>	<u>Number of Permits</u>
1991	\$75,417,049	277,987
1990	80,285,389	270,167
1989	77,706,166	263,507
1988	72,246,949	261,086

¹ County-wide including cities within the County.

Source: State Board of Equalization.

APPENDIX B

Audited Financial Statements of the Palmdale Water District as of December 31, 1991 and 1990

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PALMDALE WATER DISTRICT

Financial Statements

December 31, 1991 and 1990

(With Independent Auditors' Report Thereon)

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Palmdale Water District:

We have audited the accompanying balance sheets of Palmdale Water District as of December 31, 1991 and 1990 and the related statements of earnings, changes in District equity and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Palmdale Water District as of December 31, 1991 and 1990 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick

May 29, 1992

Balance Sheets

Assets		<u>1991</u>	<u>1990</u>		<u>Liabilities and District Equity</u>	<u>1991</u>	<u>1990</u>
Current assets:					Current liabilities:		
Cash (note 2)	\$	3,809,382	1,113,242		Current installments of long-term debt (note 4)	\$ 825,000	830,000
Invested funds (note 2)		15,747,747	18,436,909		Accounts payable and accrued expenses	2,537,212	2,787,489
					Deferred assessments	1,860,000	1,620,000
Receivables:					Total current liabilities	<u>5,222,212</u>	<u>5,237,489</u>
Accounts and notes receivable, less allowance for doubtful receivables of \$7,738 in 1991 and \$10,845 in 1990		1,590,392	1,790,114		Long-term debt (note 4):		
Assessments receivable		2,510,570	1,909,640		Certificates of participation, defeased	—	3,765,000
		<u>4,100,962</u>	<u>3,699,754</u>		October 1, 1991		
					Certificates of participation, maturing serially each October 1 until 2021	10,544,984	—
Materials and supplies		337,734	344,817		5.0% bonds, maturing serially each July 1 from 1991 until 2002	950,000	1,025,000
Prepaid expenses		75,131	63,095		Total long-term debt	<u>11,494,984</u>	<u>4,790,000</u>
		<u>24,070,956</u>	<u>23,657,817</u>		Total liabilities	<u>16,717,196</u>	<u>10,027,489</u>
Total current assets					District equity:		
Restricted cash and investments (note 2)		8,123,142	1,213,246		Contributions in aid of construction	3,254,507	3,239,423
Other assets:					Retained earnings	57,267,503	52,666,036
Notes, contract and other receivables		57,060	86,686		Total District equity	60,522,010	55,905,459
Land held for resale, at cost		158,047	158,047		Commitment and contingencies (note 6)		
Total other assets		<u>215,107</u>	<u>244,733</u>				
Participation rights in state water facilities, at allocated cost, less accumulated amortization of \$2,184,837 and \$1,953,669 in 1991 and 1990, respectively		10,171,248	9,367,570				
Net property, plant and equipment (note 3)		<u>34,658,753</u>	<u>31,449,582</u>				
	\$	77,239,206	65,932,948			\$ 77,239,206	65,932,948

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PALMDALE WATER DISTRICT

Statements of Earnings

Years ended December 31, 1991 and 1990

	<u>1991</u>	<u>1990</u>
Operating revenue – water sales and service fees	\$ 6,329,443	6,554,721
Operating expenses:		
Purchased water	809,151	994,838
Operation and maintenance	3,125,943	3,198,410
General and administrative	2,061,925	1,705,574
Depreciation	1,876,229	1,692,163
Service and installation	44,183	86,886
	<u>7,917,431</u>	<u>7,677,871</u>
Less capitalized construction costs	<u>(456,923)</u>	<u>(345,669)</u>
	<u>7,460,508</u>	<u>7,332,202</u>
Operating loss	<u>(1,131,065)</u>	<u>(777,481)</u>
Nonoperating revenues:		
Assessments levied	3,624,116	3,246,504
Interest	1,583,979	1,793,621
Capital improvement fees	1,214,950	3,632,559
Other	82,809	211,325
	<u>6,505,854</u>	<u>8,884,009</u>
Nonoperating expenses:		
Interest on long-term debt	383,391	505,037
Amortization of participation rights in state water facilities	231,168	208,176
Loss on defeasance (note 4)	158,763	—
	<u>773,322</u>	<u>713,213</u>
Net earnings	<u>\$ 4,601,467</u>	<u>7,393,315</u>

See accompanying notes to financial statements.

PALMDALE WATER DISTRICT

Statements of Changes in District Equity

Years ended December 31, 1991 and 1990

	<u>Contributions in aid of construction</u>	<u>Retained earnings</u>	<u>Total</u>
Balance, January 1, 1990	\$ 3,224,272	45,272,721	48,496,993
Contributions in aid of construction	15,151	—	15,151
Net earnings	<u>—</u>	<u>7,393,315</u>	<u>7,393,315</u>
Balance, December 31, 1990	3,239,423	52,666,036	55,905,459
Contributions in aid of construction	15,084	—	15,084
Net earnings	<u>—</u>	<u>4,601,467</u>	<u>4,601,467</u>
Balance, December 31, 1991	<u><u>\$ 3,254,507</u></u>	<u><u>57,267,503</u></u>	<u><u>60,522,010</u></u>

See accompanying notes to financial statements.

PALMDALE WATER DISTRICT

Statements of Cash Flows

Years ended December 31, 1991 and 1990

	<u>1991</u>	<u>1990</u>
Cash flows from operating activities:		
Net earnings	\$ 4,601,467	7,393,315
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	1,876,229	1,692,163
Amortization	231,168	208,176
Loss on defeasance	158,763	—
Decrease (increase) in accounts and notes receivable	199,722	(759,079)
Increase in assessments receivable	(600,930)	(588,672)
Decrease (increase) in materials and supplies	7,083	(36,481)
(Increase) decrease in prepaid expenses	(12,036)	2,006
Decrease in notes, contract and other receivables	29,626	8,332
(Decrease) increase in accounts payable and accrued expenses, net of accrued interest on defeased debt	(192,939)	798,758
Increase in deferred assessments	240,000	462,000
Net cash provided by operating activities	<u>6,538,153</u>	<u>9,180,518</u>
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(5,085,400)	(6,851,949)
Payment of participation rights in state water facilities	(1,034,846)	(882,947)
Net cash used in investing activities	<u>(6,120,246)</u>	<u>(7,734,896)</u>
Cash flows from financing activities:		
Decrease (increase) in invested funds	2,689,162	(2,162,218)
Increase in restricted cash and investments	(6,909,896)	(5,836)
Payments of long-term debt	(830,000)	(765,000)
Payments on defeasement of long-term debt	(3,981,101)	—
Contributions in aid of construction	15,084	15,151
Proceeds from issuance of certificates of participation, net	11,294,984	—
Net cash provided by (used in) financing activities	<u>2,278,233</u>	<u>(2,917,903)</u>
Net increase (decrease) in cash	2,696,140	(1,472,281)
Cash, beginning of year	<u>1,113,242</u>	<u>2,585,523</u>
Cash, end of year	<u>\$ 3,809,382</u>	<u>1,113,242</u>
Supplemental cash flow disclosure – interest paid	<u>\$ 519,917</u>	<u>524,579</u>

See accompanying notes to financial statements.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 1991 and 1990

(1) Summary of Significant Accounting Policies

General

The Palmdale Water District (District) uses the accrual basis of accounting. The financial statements are presented in conformity with generally accepted accounting principles and in conformity with accounting principles and methods prescribed for water utility districts by the Office of the Controller of the State of California.

As a public agency, the District is not subject to state or Federal income tax.

Revenue Recognition

Revenue from water sales is recognized as customers are billed. The billing is either on a bimonthly or monthly basis depending upon the size of the water meter.

Capital Improvement Fees

A capital improvement fee is charged for construction projects based upon the District's cost for providing the service.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, including direct costs and certain indirect costs. Depreciation is provided over the estimated useful lives of the respective assets by use of the straight-line method. Buildings, wells and improvements are depreciated over 40 years, and machinery and equipment are depreciated over asset lives ranging from 3 to 20 years.

Materials and Supplies

Materials and supplies are stated at the lower of average cost (first-in, first-out) or market (net realizable value).

Assessments Levied

The District records tax assessments as revenue ratably over the assessment period.

Cash and Invested Funds

The District invests cash in excess of its operating requirements primarily in the Local Agency Investment Fund of the State of California and securities of the U.S. Government. All invested funds are subject to and conform with the guidelines of the government code of the state of California. All cash and invested funds are stated at the lower of cost or fair market value.

PALMDALE WATER DISTRICT

Notes to Financial Statements, Continued

Participation Rights in State Water Facilities

The District is a participant in the State of California Water Project, which consists of the development of an aqueduct system to deliver water to Southern California. The District has agreed to pay a portion of the cost of the aqueduct system and an allocated share of the cost of operation and maintenance. The District's share of such costs, which is unrelated to the volume of water delivered, is estimated in total at \$56,500,000. Such costs are capitalized when billed as participation rights in state water facilities. The participation rights are being amortized over the District's water entitlement period through the year 2035. The charges for variable operations, maintenance and costs related to the delivery of water are charged to operations as incurred. Water from this project is currently being delivered to the District (see note 6).

(2) Cash, Investments and Restricted Cash

At year-end, the carrying amount of the District's demand deposits was \$98,832 while the banks' corresponding balance was \$578,025. The difference between the District's deposit balance and the banks' balance results from outstanding checks. Additionally, the District had \$2,083,397 in savings deposits, of which \$100,000 was insured by the FDIC and \$1,983,397 was collateralized. The deposits were covered by collateral held by the California State Superintendent of Banks, a third-party agent for all non-FDIC insured deposits of financial institutions conducting business in the state of California. The California Government Code requires California banks and savings and loan associations to secure public agency deposits by pledging government securities equal to 110% of the District's deposits or pledging first trust deed mortgage notes equal to 150% of the District's total deposits.

The District is authorized to invest in obligations deemed prudent and that are permissible under currently effective legislation of the state of California, which includes obligations issued or guaranteed by the Federal Government, its agencies and instrumentalities, as well as commercial paper rates A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, bank certificates of deposit and the State Treasurer's Local Agency Investment Fund.

Investments are stated at the lower of cost or fair market value.

PALMDALE WATER DISTRICT

Notes to Financial Statements, Continued

In accordance with Government Accounting Standards Board Opinion Number 3, the District's investments at December 31, 1991 are categorized below to give an indication of the level of credit risk assumed by the District at year-end. The District has no investments in risk Category 1, which would include investments for which the securities are insured or are registered in the District's name and held by the District or its agent. Category 2 includes uninsured or unregistered investments for which the securities are held by the broker's or dealer's trust department in the District's name. The District had no investments in risk Category 3, which would include uninsured and unregistered investments held by the broker or dealer or its trust department, but not in the District's name:

	<u>Carrying amount</u>	<u>Market value</u>
Categorized investments – category 2 – U.S. securities	\$ 5,839,860	7,192,035
Investments not required to be categorized:		
Investment in State of California Local Agency Investment Fund	6,309,158	6,309,158
Fiscal agent invested securities – money market funds	7,998,767	7,998,767
Money market funds	<u>5,349,657</u>	<u>5,349,657</u>
Total investments	25,497,442	26,849,617
Other cash deposits, including cash on hand and savings deposits	<u>2,182,829</u>	<u>2,182,829</u>
Total cash, investments and restricted cash	\$ <u><u>27,680,271</u></u>	<u><u>29,032,446</u></u>

(3) Property, Plant and Equipment

Property, plant and equipment consist of:

	<u>January 1, 1991</u>	<u>Additions</u>	<u>Retirements and transfers</u>	<u>December 31, 1991</u>
Land	\$ 546,804	—	—	546,804
Buildings, wells and distribution system	35,085,706	75,569	3,239,288	38,400,563
Machinery and equipment	1,318,197	175,007	(26,937)	1,466,267
Construction in progress	5,293,864	4,834,824	(3,239,288)	6,889,400
	<u>42,244,571</u>	<u>5,085,400</u>	<u>(26,937)</u>	<u>47,303,034</u>
Less accumulated depreciation	10,794,989	1,876,229	26,937	12,644,281
	<u><u>\$ 31,449,582</u></u>	<u><u>3,209,171</u></u>	<u><u>—</u></u>	<u><u>34,658,753</u></u>

PALMDALE WATER DISTRICT

Notes to Financial Statements, Continued

(4) Long-Term Debt

On October 24, 1991, the District issued \$11,540,000 of thirty-year certificates of participation including an original issue discount of \$245,016. The proceeds were used for three purposes: to advance refund the District's 1985 certificates of participation for which \$3,765,000 was outstanding; to enlarge the District's water treatment plant from its existing capacity of twelve million gallons per day to a new capacity of thirty million gallons per day; and to construct a 15,240 square foot office building to replace the District's existing facility.

Certain of the thirty-year certificates of participation, dated October 1, 1991, mature on or before October 1, 2000 and are not subject to optional redemption prior to maturity. The remaining certificates (in amounts not less than \$5,000) mature on or after October 1, 2001 and are subject to optional redemption prior to maturity at the option of the District, as a whole, or in part in inverse order of maturity, and if less than all of a maturity is redeemed, then by lot within such maturity, on any April 1 or October 1 on or after October 1, 2000, from prepayments of installment purchase payments, at the following prices expressed as percentage of the principal amount to be redeemed, plus accrued interest to the redemption date:

<u>Redemption date</u>	<u>Principal</u>
October 1, 2000 and April 1, 2001	102%
October 1, 2001 and April 1, 2002	101
October 1, 2002 and thereafter	100

Principal matures on October 1 of each year through 2021 at variable amounts ranging from \$135,000 to \$1,000,000. Interest, a portion of which is being capitalized during construction, ranges from 4.5% to 6.4% and is payable semiannually on April 1 and October 1 of each year beginning in 1992.

Annual debt service requirements to maturity for the certificates of participation are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1992	\$ 750,000	656,808	1,406,808
1993	900,000	623,058	1,523,058
1994	940,000	580,758	1,520,758
1995	1,000,000	534,698	1,534,698
1996	135,000	484,698	619,698
Thereafter	7,815,000	7,664,521	15,479,521
	<u>\$ 11,540,000</u>	<u>10,544,541</u>	<u>22,085,541</u>

In October 1991, the Company executed an "in-substance defeasance" of its 1985 certificates of participation. Funds aggregating \$3,981,101 were placed in an escrow fund to cover the outstanding principal, interest and premium to be paid on these certificates of participation. The escrowed funds are invested in short-term government securities.

PALMDALE WATER DISTRICT

Notes to Financial Statements, Continued

The aforementioned defeasance resulted in an economic gain to the District wherein the District will, over time, realize a savings in cash flow requirements to service the debt. For accounting purposes, however, this refunding transaction resulted in an immediate loss. In accordance with generally accepted accounting principles, this accounting loss of \$158,763 has been recognized by the District in the year of refunding. The corresponding economic gain (difference between the present value of the old and new debt service payments) is \$125,000 and will be recognized by the District as it occurs.

The District issued \$1,950,000 of Palmdale Irrigation Second Issue of Bonds 1966 to finance the reconstruction of a reservoir to increase the capacity of the District's domestic water supply system. The Second Issue of Bonds 1966 is dated July 1, 1967 and is subject to redemption, at the option of the Board of Directors, in whole or in part on any interest payment date for bonds maturing on or after July 1, 1993 at prices ranging from 101.25% to 103.50%. The District is in compliance with all significant bond covenants. Interest is payable on July 1 and December 31 at 5.0%. The total authorized for the second issue of bonds was \$4,000,000. The sale of unissued bonds is subject to approval by the District Securities Commission for the purpose of any intended sale. The District is required to designate an amount equal to annual interest and principal payments in a bond reserve fund. Accordingly, \$124,375 has been so designated and included in restricted cash.

Annual debt service requirements to maturity for the irrigation second issue bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1992	\$ 75,000	49,375	124,375
1993	80,000	45,500	125,500
1994	80,000	41,500	121,500
1995	85,000	37,375	122,375
1996	90,000	33,000	123,000
Thereafter	615,000	96,625	711,625
	<u>\$ 1,025,000</u>	<u>303,375</u>	<u>1,328,375</u>

Changes in long-term debt (in thousands) are as follows:

	<u>Certificates of participation</u>	<u>General obligation bonds</u>	<u>Total</u>
Balance at January 1, 1991	\$ 4,525	1,095	5,620
Principal issued	11,295	—	11,295
Principal reductions	4,525	70	4,595
Balance at December 31, 1991	<u>\$ 11,295</u>	<u>1,025</u>	<u>12,320</u>

PALMDALE WATER DISTRICT

Notes to Financial Statements, Continued

(5) Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement Systems (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the state of California. The District's payroll for employees covered by PERS for the fiscal year ended June 30, 1991 was \$1,703,336 and total payroll was \$1,832,608.

All District employees are eligible to participate in PERS. Benefits vest after five years of service. District employees who retire at or after age 50 with five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount equal to 1.092% of their most highly compensated 12-month period of employment. This percentage increases incrementally after each year of credited service up to 40 years. PERS also provides for death and disability benefits. These benefit provisions and all other requirements are established by state statute.

Employee and Employer Contribution Obligations

The District has opted to contribute the required 9.68% of employees base salary for fiscal year ended June 30, 1990 on behalf of its employees. The rate for fiscal year ended June 30, 1991 is 5.925%.

Funding Status and Program

The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users of the financial statements assess the funding status of PERS on a going-concern basis, assess progress made in accumulation of sufficient assets to pay benefits when due and make comparison among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to PERS.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1990. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8.5% a year compounded annually, (b) projected salary increases of 5% a year compounded annually, attributable to inflation, (c) additional projected salary increases of 1.5%, attributable to seniority/merit and (d) across-the-board real salary increases of .5%.

PALMDALE WATER DISTRICT

Notes to Financial Statements, Continued

Pension information at June 30, 1990, the most recent valuation date, is as follows:

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 990,377
Current employees:	
Accumulated employee contributions, including allocated investment earnings	103,517
Employer-financed, vested	752,892
Employer-financed, nonvested	177,184
	<hr/>
Total pension benefit obligation	2,023,970
Net assets available for benefits, at cost (market value is \$2,367,759)	<hr/>
	2,087,971
	<hr/>
Net assets in excess of pension benefit obligation	\$ 64,001
	<hr/>

Actuarially Determined Contributions Requirements and Contributions Made

PERS' funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The rate for the District's employee group as a whole has tended to remain level as a percentage of annual covered payroll. The contribution rate for normal cost is determined using the credited-projected-benefits-actuarial-funding method with proration based on service. PERS uses the level-percentage-of-payroll method to amortize the unfunded liability over a closed 30-year period. The dates are June 30 of the years specified on the rate sheets of the PERS Actuarial Valuation Report.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation described above.

The contribution to PERS for the year ended June 30, 1991 of \$125,646 was made in accordance with an actuarial valuation performed as of June 30, 1990. The contribution consisted of (a) \$165,853 normal cost (9.737% of current covered payroll) and (b) \$(40,207) amortization of the unfunded actuarial accrued liability ((2.36)% of current covered payroll). The District contributed \$125,646.

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. The District has been informed that systemwide ten-year trend information may be found in the California Public Employees Retirement System Annual Reports.

PALMDALE WATER DISTRICT

Notes to Financial Statements, Continued

Available trend information is summarized as follows:

	<u>1990-91</u>	<u>1989-90</u>
Net assets available for benefits expressed as a percentage of the pension benefit obligation	103.20%	109.40%
Net assets in excess of unfunded pension benefit obligation expressed as a percentage of annual covered payroll	3.8	12.40
Employer contributions expressed as a percentage of annual covered payroll. These contributions were made in accordance with actuarially determined requirements	<u>5.925</u>	<u>9.68</u>

(6) Commitment and Contingencies

The District is notified in advance by the State of California Department of Water Resources for the following calendar year's expected water usage charges. A portion of the charges is for the participation in the State Water Project (note 1), and the remainder is for water supply. The commitment for 1992 for the State Water Project portion is \$1,143,382 and for water supply is \$836,557.

In the ordinary course of operations, the District is the subject of claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of the legal proceedings, if unfavorable, will not materially affect its financial condition.

APPENDIX C

Specimen Municipal Bond Insurance Policy

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FINANCIAL GUARANTY INSURANCE POLICY

Municipal Bond Investors Assurance Corporation
Armonk, New York 10504

Policy No. XXXXXXX

Municipal Bond Investors Assurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts."

"Obligations" shall mean:

[PAR AMOUNT]
[LEGAL TITLE OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with Citibank, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to Citibank, N.A., Citibank, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH], 1991.

MUNICIPAL BOND INVESTORS
ASSURANCE CORPORATION

President

Attest:

Assistant Secretary

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APPENDIX D

Form of Special Counsel's Opinion

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_____, 1993

Palmdale Water District
Palmdale, California

Re: \$_____ Palmdale Water District, Certificates of
Participation, (Littlerock Dam Project), Series 1993A

Ladies and Gentlemen:

We have reviewed the Constitution and the laws of the State of California and certain proceedings taken by the Palmdale Water District (the "District") in connection with the authorization, execution and delivery by the District of that certain Installment Purchase Agreement, dated as of March 1, 1993, by and between the Palmdale Water District Public Facilities Corporation (the "Corporation") and the District (the "Installment Purchase Agreement"). We have also reviewed that certain Trust Agreement, dated as of March 1, 1993, by and among State Street Bank and Trust Company of California, N.A. (the "Trustee"), the District and the Corporation (the "Trust Agreement"), and such other information and documents as we consider necessary to render this opinion.

Pursuant to the Trust Agreement, the Trustee has agreed to execute and deliver certificates of participation (the "Certificates") evidencing a direct and proportionate interest of the registered owners of the Certificates in Installment Purchase Payments (as defined in the Trust Agreement) to be made by the District pursuant to the Installment Purchase Agreement. The Installment Purchase Agreement was entered into by the District for the purpose of constructing certain improvements to its water system, including the improvements to the Littlerock Dam and Reservoir and appurtenances thereto (the "Project").

The Certificates are dated March 1, 1993 and mature on the dates and in the amounts set forth in the Trust Agreement. Interest due with respect to the Certificates is payable on the dates and at the rates per annum set forth in the Trust Agreement. The Certificates are registered Certificates in the form set forth in the Trust Agreement and are subject to optional and mandatory prepayment prior to maturity in the manner and upon the terms set forth in the Trust Agreement.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deemed relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

1. The obligation of the District to pay the Installment Purchase Payments under the Installment Purchase Agreement is a valid and binding obligation payable from Net Revenues of the District (as defined in the Installment Purchase Agreement).

2. The Installment Purchase Agreement and the Trust Agreement have been duly authorized, executed and delivered by the District and (assuming they constitute valid and binding agreements of the respective other parties thereto) constitute valid and binding agreements of the District enforceable in accordance with their terms, except to the extent that enforceability may be limited by moratorium, bankruptcy, reorganization, insolvency and other laws affecting the enforcement of creditors' rights in general and by the exercise of judicial discretion in accordance with general principles of equity.

3. Under existing statutes, regulations, rulings, and judicial decisions, the portion of each Installment Purchase Payment constituting interest paid by the District and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, we note that, with respect to corporations, the portion of the Installment Purchase Payments constituting interest may be included as an adjustment in the calculation of alternative minimum taxable income which may affect such corporation's alternative minimum tax liability.

4. The portion of each Installment Purchase Payment constituting interest is exempt from California personal income tax.

The opinions expressed herein are based on an analysis of existing statutes, regulations, rulings and judicial decisions. Such opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur.

Additionally, the opinions expressed herein are based upon certain representations made by the District and others and are subject to the condition that the District comply with certain covenants and the requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the execution and delivery of the Certificates to assure that the portion of the Installment Purchase Payments constituting interest will remain excludable from gross income for federal income tax purposes. Failure to comply with such requirements possibly could cause the portion of the Installment Purchase Payments constituting interest and/or original issue discount to be included in gross income for federal income tax purposes retroactive to the date of the execution and delivery of the Certificates. The District has covenanted to comply with all such requirements.

We express no opinion regarding other tax consequences with respect to the Certificates.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities.

Respectfully submitted,

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APPENDIX E

Book-Entry Only System

APPENDIX E

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, NY, 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). 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 securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the 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, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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 Participants with DTC are registered in the name of DTC's partnership nominee, CEDE & CO. The deposit of Bonds with DTC and their registration in the name of CEDE & CO. effect no 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 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 CEDE & CO. 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. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns CEDE & CO.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payment dates. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the District or the Fiscal Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

The District can make no assurances that DTC, DTC Participants, or other nominees of the Beneficial Owners will distribute notices received by the Owner of the Bonds, including redemption notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will act in a manner described in this Official Statement.

The District or the Fiscal Agent 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.

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

