

**Victorville Water District
Resolution VWD 11-001, Justification for
Proposal and Supplement Form,
Exhibits, Letter from Mr. Sean McGlade
Dated July 26, 2011 amending
Plan for Service, and copy of
Lease Agreement entered into between
City of Victorville and
Victorville Water District for Operation of
Wastewater Collection and Treatment
Facilities not yet implemented**

Attachment 2

CITY OF
VICTORVILLE



760.955.5000
FAX 760.245.7243
vville@ci.victorville.ca.us
http://ci.victorville.ca.us

14343 Civic Drive
P.O. Box 5001
Victorville, California 92393-5001

July 26, 2011

RECEIVED
JUL 26 2011

LAFCO
San Bernardino County

LAFCO
ATTN: K. Rollins-McDonald
175 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0490

RE: LAFCO 3168

Dear Mrs. Rollins-McDonald:

Due to recent changes to the City's plans as they relate to the regional wastewater facility, it becomes necessary to amend our Plan for Services, previously submitted for the above referenced case.

Recently, I have been assigned Public Works and Water District duties, as well as the Engineering functions for the City of Victorville. As such, I reviewed the Victorville Water District's submittals for LAFCO 3168, for the Activation of Latent Sewer Powers, in order to prepare responses to your May 19, 2011 request for further information. I responded on June 6, 2011 with the requested information.

However, I did notice that the Plan for Services contained a map (EXHIBIT II), which represents a boundary that was the subject of a proposed amendment to the Joint Powers Agreement (JPA) amongst the Victor Valley Wastewater Reclamation Authority (VWRA) members. The amendment has not been approved by the members, and therefore the map is misleading and inappropriate for inclusion in the Plan for services. As a result, I would like to substitute the attached Plan for Services for the original that was submitted in March.

I also want to be sure that you are aware of our new city Manager. Doug Robertson, former deputy City Manager, was appointed as Victorville's City Manager when Jim Cox elected not to renew his contract.

Thank you for your help on this matter, and if you have any questions, or require further clarification on this matter, please do not hesitate to contact me at (760) 955-5157.

Sincerely,

John A. McGlade
City Engineer/Director Water & Public Works

JAM/ls

cc Doug Robertson

Attachment

VICTORVILLE WATER DISTRICT

PLAN FOR SERVICES

1. The total estimated cost to provide the new or different function or class of service within the District's boundaries.

It is the intent of the Victorville Water District (the "District") to lease all sewer infrastructure located within its boundaries from the City of Victorville (the "City"). This plan calls for all costs incurred by the District in the operation of the sewerage system within the District boundaries to be billed to the City, including those of the Industrial Wastewater Treatment Plant. The intent is for the City to continue to bill and collect revenues from District customers for sewerage services including wastewater treatment. In addition, the plan calls for the City to maintain and operate sewer infrastructure and services.

The total estimated cost of operation, maintenance and management to provide the wastewater treatment and provision of reclaimed water for reuse averages \$10,689,581 annually over the next five years beginning in July 2011 (see detail Exhibit I). After estimated annual debt service of \$3,600,000, annual estimated revenues of \$14,420,332 will yield an estimated average net income of \$130,750, essentially break-even.

2. The estimated cost of the new or different function or service to existing customers within the district's jurisdictional boundaries. (The cost can be identified by customer class).

It is anticipated that the sewer user rates for the collection and treatment of wastewater will not change as a result of the activation of sewer powers except for those as is in the current rate forecast. No customer class or area will incur changes in sewer rates and existing customers will continue to incur rates as currently proposed.

The plan calls for the Water District to operate two sewer subareas. The subarea servicing the eastern portion of the District would continue to discharge waste effluent to the Victor Valley Waste Water Reclamation Authority (VWRA) for treatment and discharge. The plan calls for the other subarea to service the western portion of the District. An estimated 1.5mgd of sanitary sewerage would be directed to the District's Industrial Wastewater Treatment Plant (IWWTP). Also within this subarea, existing and future industrial discharges are directed through a dedicated industrial sewer line to the IWWTP. No rate changes are contemplated at this time for the industrial dischargers.

3. An identification of existing providers, if any, of the function(s)/service(s) and the potential fiscal impact of this activation to the customers of those providers.

The City is the current provider of sewer service and reclaimed water service. The District is a subsidiary district of the City. There is no anticipated fiscal impact on the City and its customers as a result of the activation of these powers.

4. A plan for financing the establishment of the new or different function/service within the district's jurisdictional boundaries. A discussion about the sufficiency of revenues to fund the anticipated ongoing maintenance and operation of the service is also required. This plan should include:

- a. An indication of whether territory is or will be proposed for inclusion within a proposed improvement zone/district, assessment district, or community facilities district to fund the service.
- b. If retail water service is proposed to be activated through this action, provide a description of the timely availability of water for projected needs within the area. (The response should be patterned after the factors identified in Government Code Section 65352.5 related to an Urban Water Management Plan.)

VICTORVILLE WATER DISTRICT

PLAN FOR SERVICES

The 5-year plan projects incremental sewer services and wastewater treatment to be financed by user fees collected from current and future customers as shown in Exhibit I. Planned debt instruments will be used to fund the construction and startup of the new Industrial Wastewater Treatment Plant. Fees collected will finance the costs associated with the operation and maintenance of the sewer collection system, Industrial Wastewater Treatment Plant, and the treatment fees charged by the Victor Valley Wastewater Reclamation Authority. The anticipated sale of reclaimed water to the Westwinds Golf Course and ultimately the High Desert Power Project provides additional revenues to offset costs associated with the production of Title 22 reclaimed water and the operation and maintenance of the storage and distribution system. There are no plans to include territory within an improvement district, assessment district or community facilities district to fund the proposed services.

5. A discussion of the alternatives to the establishment of the new or different service within the District's boundaries/service area.

The alternative is for functions and services to remain as currently constituted with water remaining with the District and sewer remaining with the City. The City and District seek the activation of sewer powers by the water district in order to eliminate service and cost redundancies that currently exist and to consolidate reclaimed water and water conservation efforts, thus improving efficiencies and service values. For example, the City and the District would both be concurrently pursuing water conservation activities with their associated costs. These conservation activities include such programs as:

- a. The City purchases Title 22 water from VVWRA and uses it for irrigation purposes at Westwinds Golf Course. The City has implemented policies for the inclusion of "purple pipe" construction with all new development. But at Southern California Logistics Airport (SCLA), the opportunity to reuse reclaimed water is most advantageous due to the close proximity of the storage and distribution system.
- b. The District has been aggressively enforcing water conservation by its residents and businesses. Through a program backed by the Mojave Water Agency, it has implemented "cash for grass", where a customer would receive cash for removing grass and using drought tolerant landscaping. The District has enjoyed great success in its conservation program and the inclusion of sewer powers to operate, manage and promote the reuse of reclaimed water is a logical addition to its current conservation goals. The combination of these two efforts under the District will result in greater efficiency and cost savings.

VICTORVILLE WATER DISTRICT

PLAN FOR SERVICES

EXHIBIT I Victorville Water District Sewer, Wastewater Treatment and Reclaimed Water Operations 5-Year Projection

| | FISCAL YEAR | | | | | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2011* | 2012** | 2013 | 2014 | 2015 | 2016 |
| <u>OPERATING REVENUES</u> | | | | | | |
| Residential and Commercial (1% Escalator Beginning FY 2013) | \$ 10,545,969.60 | \$ 11,831,327.04 | \$ 11,949,640.31 | \$ 12,069,136.71 | \$ 12,189,828.08 | \$ 12,311,726.36 |
| Industrial - Dr. Pepper O&M | 1,462,500.00 | 732,006.00 | 732,006.00 | 732,006.00 | 732,006.00 | 732,006.00 |
| Industrial - Dr. Pepper Capital Contribution | - | 1,217,994.00 | 1,217,994.00 | 1,217,994.00 | 1,217,994.00 | 1,217,994.00 |
| Net Sale of Reclaimed Water | <u>100,000.00</u> | <u>400,000.00</u> | <u>400,000.00</u> | <u>400,000.00</u> | <u>400,000.00</u> | <u>400,000.00</u> |
| TOTAL OPERATING REVENUES | \$ 12,108,469.60 | \$ 14,181,327.04 | \$ 14,299,640.31 | \$ 14,419,136.71 | \$ 14,539,828.08 | \$ 14,661,726.36 |
| <u>OPERATING EXPENSES</u> | | | | | | |
| Personnel Services/Maintenance and Operations (3% Escalator) | \$ 1,987,905.00 | \$ 2,047,542.15 | \$ 2,108,968.41 | \$ 2,172,237.47 | \$ 2,237,404.59 | \$ 2,304,526.73 |
| Subcontract Treatment - VVWRA | 6,424,000.00 | 6,168,500.00 | 6,168,500.00 | 6,168,500.00 | 6,168,500.00 | 6,168,500.00 |
| Subcontract Plant Management (Woodard & Curran) | 1,462,500.00 | 2,266,868.00 | 2,266,868.00 | 2,266,868.00 | 2,266,868.00 | 2,266,868.00 |
| Cost of Sludge Treatment | <u>80,077.33</u> | <u>80,077.33</u> | <u>80,077.33</u> | <u>80,077.33</u> | <u>80,077.33</u> | <u>80,077.33</u> |
| TOTAL OPERATING EXPENSES | \$ 9,954,482.33 | \$ 10,562,987.48 | \$ 10,624,413.75 | \$ 10,687,682.80 | \$ 10,752,849.92 | \$ 10,819,972.06 |
| NET INCOME/LOSS | \$ 2,153,987.27 | \$ 3,618,339.56 | \$ 3,675,226.56 | \$ 3,731,453.91 | \$ 3,786,978.16 | \$ 3,841,754.30 |
| <u>Estimated Debt Service</u> | | | | | | |
| Debt Service Coverage | n/a | 1.01 | 1.02 | 1.04 | 1.05 | 1.07 |
| NET INCOME/LOSS AFTER DEBT SERVICE | \$ 2,153,987.27 | \$ 18,339.56 | \$ 75,226.56 | \$ 131,453.91 | \$ 186,978.16 | \$ 241,754.30 |
| FUND BALANCE | \$ 2,153,987.27 | \$ 2,172,326.82 | \$ 2,247,553.39 | \$ 2,379,007.30 | \$ 2,565,985.46 | \$ 2,807,739.75 |

NOTES

Assumes 1.5 mgd diverted from VVWRA

*Based on base case of current rate and diversion for partial year of \$2,200/mgd.

**Based on anticipated maximum approved rate increase and diversion for full year of \$2,600/mgd.

Rollings-McDonald, Kathleen

From: Sean McGlade [SMcGlade@ci.victorville.ca.us]
Sent: Wednesday, October 05, 2011 6:13 PM
To: Rollings-McDonald, Kathleen
Cc: Doug Robertson; Steve Borrowman; Martinez, Samuel
Subject: RE: Plan for SErvice Update for Victorville Water District Sewer Function activation

Kathleen,

At this time, the amendment to the JPA has not been completed. It was anticipated at the time of the application that the amendment would have been approved and the EXHIBIT II map would have been more meaningful. We remain hopeful that the JPA amendment can continue forward, with our new leader engaged in the discussions and negotiations with VVWRA. The map in EXHIBIT II is the preferred and most likely depiction of the service boundary of the IWWTP.

If it is desirable to have a map of the service boundary, I have no problem reinserting it with the understanding that it could change in the future. If it does in fact change in the future, the limiting factor in the service area is not the boundary line on a map, but the treatment capacity of the IWWTP. The analysis provided is based upon the 1.5 mgd flowing to the IWWTP, which closely matches the remaining capacity of the IWWTP.

The City and VWD have not progressed with the Lease Agreement. Any further movement with this is pending the outcome of the Board action on our application at the October 19th meeting.

Please let me know if this is sufficient to address your questions.

Thanks,

Sean

From: Rollings-McDonald, Kathleen [<mailto:kmcdonald@lafco.sbcounty.gov>]
Sent: Tuesday, October 04, 2011 9:41 AM
To: Sean McGlade
Cc: Doug Robertson; Steve Borrowman; Martinez, Samuel
Subject: Plan for SErvice Update for Victorville Water District Sewer Function activation

Good morning,

Your letter of July 26, 2011 identifies a revision to the Plan for Service to exclude Exhibit II which defines the service area for the IWWTP. Can you provide a description of the area to be served by the IWWTP as used in Item 2 of the Plan for Service which identifies the customer base upon which the fiscal impact analysis is based. Without this information there is no way to determine the veracity of the projections.

Also, can you verify the status of the lease agreement for transfer of the system to the VWD as contemplated for the bonding efforts.

I hate to do this to you but I will be finalizing this report this week for publication on October 12 so I will need the response asap. If you have any questions don't hesitate to call. If you would like to sit down I will be in Phelan tomorrow afternoon at 2:30 and could stop by before the meeting.

Thanks -- Kathy

Kathleen Rollings-McDonald
Executive Officer

San Bernardino LAFCO
215 North "D" Street, Suite 204
San Bernardino, CA 92415
(909) 383-9900

CITY OF
VICTORVILLE

Victorville Water District



760-245-6424
Fax: 760-269-0088
www.ci.victorville.ca.us
14343 Civic Center Drive
P.O. Box 5001
Victorville, CA 92393-5001

April 21, 2011

RECEIVED
APR 23 2011

LAFCO
San Bernardino County

Ms. Angela Schell, Deputy Clerk to the Commission
Local Agency Formation Commission
215 North "D" Street, Suite 204
San Bernardino, California 92415-0490

Dear Ms. Schell:

The Victorville Water District ("District") Resolution No. VWD 11-001 was issued solely for the purpose of requesting the Commission to initiate proceedings to activate latent sewer powers. While related, the District recognizes that the water conservation issue was addressed in LAFCO 3082.

Sincerely,

Sean McGlade, District Engineer/Director of Public Works
Victorville Water District

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE VICTORVILLE WATER DISTRICT, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA, RESCINDING RESOLUTION NO. VWD 10-014 AND MAKING APPLICATION TO THE SAN BERNARDINO COUNTY LOCAL AGENCY FORMATION COMMISSION TO INITIATE PROCEEDINGS TO ACTIVATE SEWER FUNCTION AND SERVICE

WHEREAS, the Board of Directors of the Victorville Water District desires to initiate proceedings pursuant to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, commencing with Section 56000 of the California Government Code for:

1. Activation of sewer function and service; and

WHEREAS, the territory proposed for this activation is legally inhabited and a map showing the area of proposed sewer function and service is set forth in Exhibit "A", attached hereto, and by this reference is incorporated herein; and

WHEREAS, the reason for the proposed activation of sewer function and service is to:

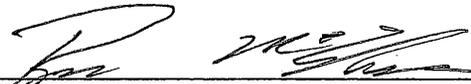
1. Provide for water conservation
2. Provide for wastewater treatment
3. Provide cost effective reclaimed water
4. Provide for reuse of reclaimed water

NOW, THEREFORE, BE IT RESOLVED, THAT:

1. Resolution Number VWD 10-014 is hereby rescinded in its entirety; and
2. This Resolution of Application is hereby approved and adopted by the Board of Directors of the Victorville Water District, and the Local Agency Formation Commission for San Bernardino County is hereby requested to take proceedings for the activation of sewer functions and services for the area described in Exhibit "A", in the manner provided in the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000; and
3. The Secretary of the Victorville Water District is hereby authorized and directed to transmit to the Executive Officer of the Local Agency Formation Commission a certified copy of the Resolution.

Resolution No. VWD 11-001

PASSED, APPROVED AND ADOPTED this 1st day of MARCH 2011



CHAIRMAN OF THE BOARD OF DIRECTORS

ATTEST:



BOARD SECRETARY

APPROVED AS TO FORM:



LEGAL COUNSEL FOR VICTORVILLE WATER DISTRICT

I, CAROLEE BATES, City Clerk of the City of Victorville and ex-officio Clerk to the Victorville Water District of said City, DO HEREBY CERTIFY that the foregoing is a true and correct copy of Resolution No. VWD 11-001 and was adopted at a meeting held on the 1st day of March 2011, by the following roll call vote, to wit:

AYES: Board Members Cabriaes, Kennedy, McEachron, and Rothschild

NOES: None

ABSENT: Board Member Valles

ABSTAIN: None



CITY CLERK

STATE OF CALIFORNIA)
COUNTY OF SAN BERNARDINO) ss.
CITY OF VICTORVILLE)

I, CAROLEE BATES, Secretary of the Board of Directors of the Victorville Water District, DO HEREBY CERTIFY that the attached is a true and correct copy of Resolution No. VWD 11-001, which was duly adopted by the Board of Directors at a meeting of the Board, held on the 1st day of March 2011.



SECRETARY
VICTORVILLE WATER DISTRICT

STATE OF CALIFORNIA)
COUNTY OF SAN BERNARDINO) ss.
CITY OF VICTORVILLE)



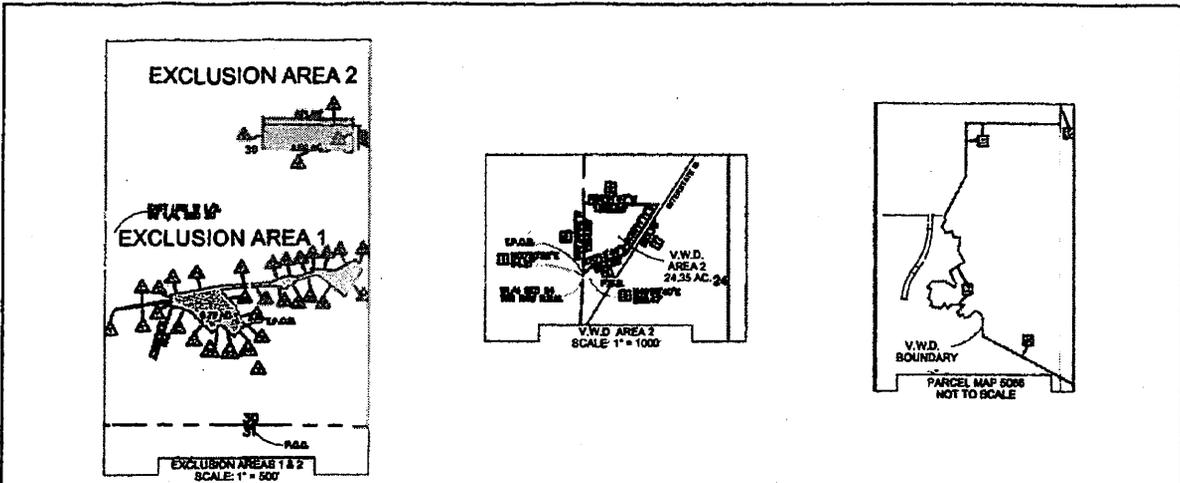
I, CAROLEE BATES, Secretary of the Board of Directors of the Victorville Water District, DO HEREBY CERTIFY that the attached is a true and correct copy of Resolution No. VWD 11-001, which was duly adopted at a meeting of the Victorville Water District held on the 1st day of March 2011, the original of which is on file in my office, and that I have carefully compared the same with the original.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the Seal of the City of Victorville to be affixed hereto this 17th day of March 2011.



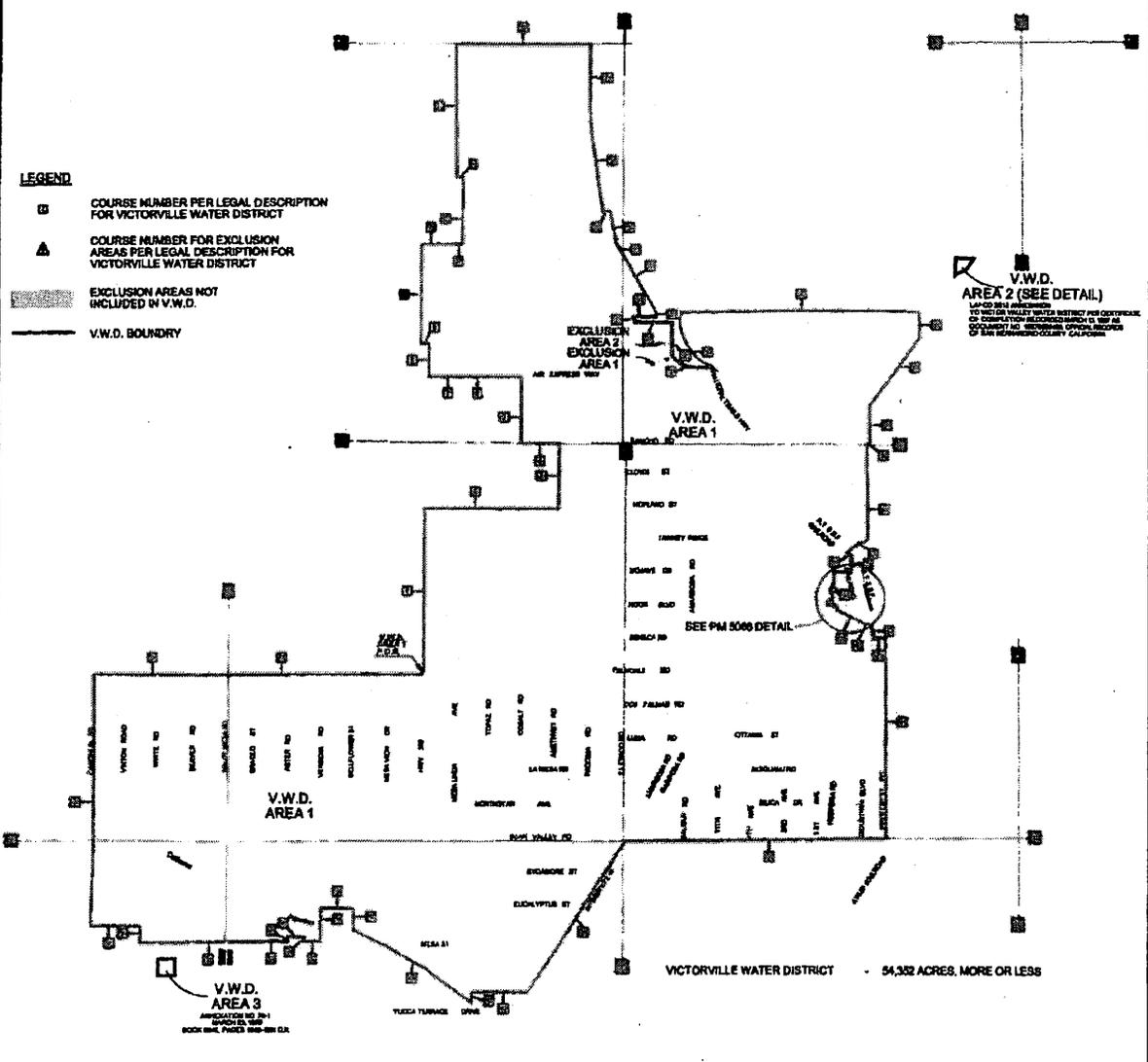
SECRETARY
VICTORVILLE WATER DISTRICT





LEGEND

- COURSE NUMBER PER LEGAL DESCRIPTION FOR VICTORVILLE WATER DISTRICT
- ▲ COURSE NUMBER FOR EXCLUSION AREAS PER LEGAL DESCRIPTION FOR VICTORVILLE WATER DISTRICT
- EXCLUSION AREAS NOT INCLUDED IN V.W.D.
- V.W.D. BOUNDARY



CITY OF VICTORVILLE
 ENGINEERING DEPARTMENT
 1423 OLIVE DRIVE
 VICTORVILLE, CA 92392
 760-935-5156

ACTIVATION OF LATENT SEWER FUNCTION
 AND SERVICE POWERS

GENERAL DESCRIPTION
 AND SERVICE POWERS

John A. McGlade
 CITY ENGINEER
 CITY OF VICTORVILLE

BY _____
 S.E.L. NO. 408 OF 2011
 I.S. NO. 867 OF 2016
 DATE _____

EXHIBIT A
 ACTIVATION OF LATENT SEWER FUNCTION
 AND SERVICE POWERS

SCALE 1" = 400'

SAN BERNARDINO COUNTY
 MAP LOCATION

Page 37 of 234

VICTORVILLE WATER DISTRICT

PLAN FOR SERVICES

- 1. The total estimated cost to provide the new or different function or class of service within the District's boundaries.**

It is the intent of the Victorville Water District (the "District") to lease all sewer infrastructure located within its boundaries from the City of Victorville (the "City"). This plan calls for all costs incurred by the District in the operation of the sewerage system within the District boundaries to be billed to the City, including those of the Industrial Wastewater Treatment Plant. The intent is for the City to continue to bill and collect revenues from District customers for sewerage services including wastewater treatment. In addition, the plan calls for the City to maintain and operate sewer infrastructure and services.

The total estimated cost of operation, maintenance and management to provide the wastewater treatment and provision of reclaimed water for reuse averages \$10,689,581 annually over the next five years beginning in July 2011 (see detail Exhibit I). After estimated annual debt service of \$3,600,000, annual estimated revenues of \$14,420,332 will yield an estimated average net income of \$130,750, essentially break-even.

- 2. The estimated cost of the new or different function or service to existing customers within the district's jurisdictional boundaries. (The cost can be identified by customer class).**

It is anticipated that the sewer user rates for the collection and treatment of wastewater will not change as a result of the activation of sewer powers except for those as is in the current rate forecast. No customer class or area will incur changes in sewer rates and existing customers will continue to incur rates as currently proposed.

The plan calls for the Water District to operate two sewer subareas (see map, Exhibit II). Subarea A, servicing the eastern portion of the District would continue to discharge waste effluent to the Victor Valley Waste Water Reclamation Authority (VWRA) for treatment and discharge. The plan calls for Subarea B to service the western portion of the District, to divert an estimated 1.5mgd of sewerage to the District's Industrial Wastewater Treatment Plant. This amount represents the estimated sewerage on the east side Subarea B which is not part of the SCLA and including the Nevada outfall from the Federal Corrections Facility currently treated by the VWRA.

- 3. An identification of existing providers, if any, of the function(s)/service(s) and the potential fiscal impact of this activation to the customers of those providers.**

The City is the current provider of sewer service and reclaimed water service. The District is a subsidiary district of the City. There is no anticipated fiscal impact on the City and its customers as a result of the activation of these powers.

- 4. A plan for financing the establishment of the new or different function/service within the district's jurisdictional boundaries. A discussion about the sufficiency of revenues to fund the anticipated ongoing maintenance and operation of the service is also required. This plan should include:**

- a. An indication of whether territory is or will be proposed for inclusion within a proposed improvement zone/district, assessment district, or community facilities district to fund the service.**
- b. If retail water service is proposed to be activated through this action, provide a description of the timely availability of water for projected needs within the area. (The response should be patterned after the factors identified in Government Code Section 65352.5 related to an Urban Water Management Plan.)**

VICTORVILLE WATER DISTRICT

PLAN FOR SERVICES

The 5-year plan projects incremental sewer services and wastewater treatment to be financed by user fees collected from current and future customers as shown in Exhibit I. Planned debt instruments will be used to fund the construction and startup of the new Industrial Wastewater Treatment Plant. Fees collected will finance the costs associated with the operation and maintenance of the sewer collection system, Industrial Wastewater Treatment Plant, and the treatment fees charged by the Victor Valley Wastewater Reclamation Authority. The anticipated sale of reclaimed water to the Westwinds Golf Course and ultimately the High Desert Power Project provides additional revenues to offset costs associated with the production of Title 22 reclaimed water and the operation and maintenance of the storage and distribution system. There are no plans to include territory within an improvement district, assessment district or community facilities district to fund the proposed services.

5. A discussion of the alternatives to the establishment of the new or different service within the District's boundaries/service area.

The alternative is for functions and services to remain as currently constituted with water remaining with the District and sewer remaining with the City. The City and District seek the activation of sewer powers by the water district in order to eliminate service and cost redundancies that currently exist and to consolidate reclaimed water and water conservation efforts, thus improving efficiencies and service values. For example, the City and the District would both be concurrently pursuing water conservation activities with their associated costs. These conservation activities include such programs as:

- a. The City purchases Title 22 water from VVWRA and uses it for irrigation purposes at Westwinds Golf Course. The City has implemented policies for the inclusion of "purple pipe" construction with all new development. But at Southern California Logistics Airport (SCLA), the opportunity to reuse reclaimed water is most advantageous due to the close proximity of the storage and distribution system.
- b. The District has been aggressively enforcing water conservation by its residents and businesses. Through a program backed by the Mojave Water Agency, it has implemented "cash for grass", where a customer would receive cash for removing grass and using drought tolerant landscaping. The District has enjoyed great success in its conservation program and the inclusion of sewer powers to operate, manage and promote the reuse of reclaimed water is a logical addition to its current conservation goals. The combination of these two efforts under the District will result in greater efficiency and cost savings.

VICTORVILLE WATER DISTRICT

PLAN FOR SERVICES

EXHIBIT I Victorville Water District Sewer, Wastewater Treatment and Reclaimed Water Operations 5-Year Projection

| | FISCAL YEAR | | | | | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2011* | 2012** | 2013 | 2014 | 2015 | 2016 |
| <u>OPERATING REVENUES</u> | | | | | | |
| Residential and Commercial (1% Escalator Beginning FY2013) | \$ 10,545,969.60 | \$ 11,831,327.04 | \$ 11,949,640.31 | \$ 12,069,136.71 | \$ 12,189,828.08 | \$ 12,311,726.36 |
| Industrial - Dr. Pepper O&M | 1,462,500.00 | 732,006.00 | 732,006.00 | 732,006.00 | 732,006.00 | 732,006.00 |
| Industrial - Dr. Pepper Capital Contribution | - | 1,217,994.00 | 1,217,994.00 | 1,217,994.00 | 1,217,994.00 | 1,217,994.00 |
| Net Sale of Reclaimed Water | 100,000.00 | 400,000.00 | 400,000.00 | 400,000.00 | 400,000.00 | 400,000.00 |
| TOTAL OPERATING REVENUES | \$ 12,108,469.60 | \$ 14,181,327.04 | \$ 14,299,640.31 | \$ 14,419,136.71 | \$ 14,539,828.08 | \$ 14,661,726.36 |
| <u>OPERATING EXPENSES</u> | | | | | | |
| Personnel Services/Maintenance and Operations (3% Escalator) | \$ 1,987,905.00 | \$ 2,047,542.15 | \$ 2,108,968.41 | \$ 2,172,237.47 | \$ 2,237,404.59 | \$ 2,304,526.73 |
| Subcontract Treatment - VVWRA | 6,424,000.00 | 6,168,500.00 | 6,168,500.00 | 6,168,500.00 | 6,168,500.00 | 6,168,500.00 |
| Subcontract Plant Management (Woodard & Curran) | 1,462,500.00 | 2,266,868.00 | 2,266,868.00 | 2,266,868.00 | 2,266,868.00 | 2,266,868.00 |
| Cost of Sludge Treatment | 80,077.33 | 80,077.33 | 80,077.33 | 80,077.33 | 80,077.33 | 80,077.33 |
| TOTAL OPERATING EXPENSES | \$ 9,954,482.33 | \$ 10,562,987.48 | \$ 10,624,413.75 | \$ 10,687,682.80 | \$ 10,752,849.92 | \$ 10,819,972.06 |
| NET INCOME/LOSS | \$ 2,153,987.27 | \$ 3,618,339.56 | \$ 3,675,226.56 | \$ 3,731,453.91 | \$ 3,786,978.16 | \$ 3,841,754.30 |
| <u>Estimated Debt Service</u> | \$ - | \$ 3,600,000.00 |
| Debt Service Coverage | n/a | 1.01 | 1.02 | 1.04 | 1.05 | 1.07 |
| NET INCOME/LOSS AFTER DEBT SERVICE | \$ 2,153,987.27 | \$ 18,339.56 | \$ 75,226.56 | \$ 131,453.91 | \$ 186,978.16 | \$ 241,754.30 |
| FUND BALANCE | \$ 2,153,987.27 | \$ 2,172,326.82 | \$ 2,247,553.39 | \$ 2,379,007.30 | \$ 2,565,985.46 | \$ 2,807,739.75 |

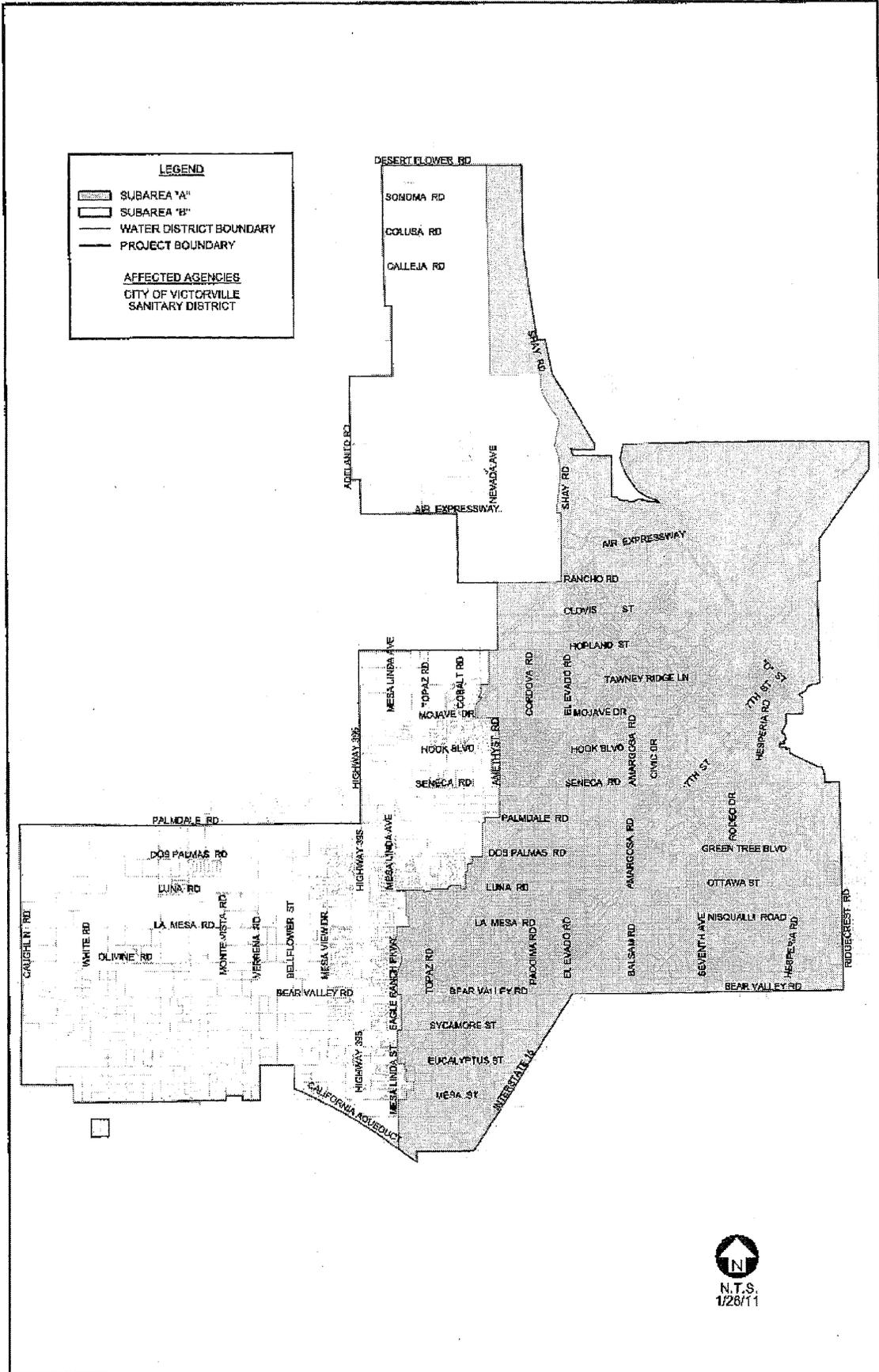
NOTES

Assumes 1.5 mgd diverted from VVWRA

*Based on base case of current rate and diversion for partial year of \$2,200/mgd.

**Based on anticipated maximum approved rate increase and diversion for full year of \$2,600/mgd.

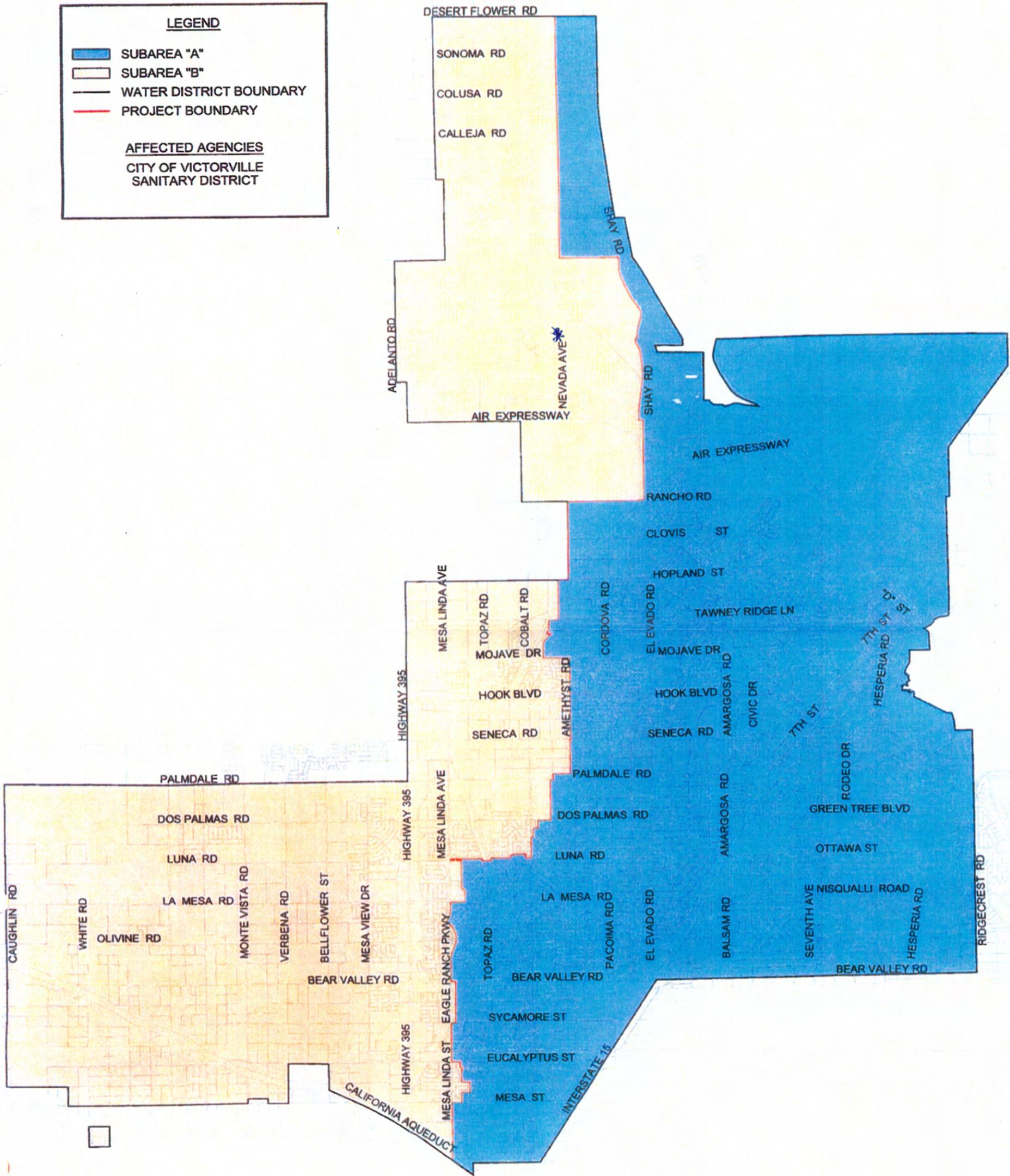
EXHIBIT II



LEGEND

-  SUBAREA "A"
-  SUBAREA "B"
-  WATER DISTRICT BOUNDARY
-  PROJECT BOUNDARY

AFFECTED AGENCIES
CITY OF VICTORVILLE
SANITARY DISTRICT



Justification for Proposal and Preliminary Environmental Description Form

INTRODUCTION: The questions on this form and its supplements are designed to obtain enough data about the proposed project site to allow the Commission, its staff and others to adequately assess the project. By taking the time to fully respond to the questions on the forms, you can reduce the processing time for your project. You may also include any additional information which you believe is pertinent. Use additional sheets where necessary, or attach any relevant documents.

GENERAL INFORMATION

1. NAME OF PROPOSAL: Activation of Latent Sewer Functions and Service Powers for the Victorville Water District

2. NAME OF APPLICANT: Victorville Water District
MAILING ADDRESS:
14343 Civic Drive, P.O. Box 5001
Victorville, CA 92392
PHONE: (760) 955-5201
FAX: (760) 955-5159
E-MAIL ADDRESS: jcox@ci.victorville.ca.us

3. GENERAL LOCATION OF PROPOSAL: The Victorville Water District is situated approximately 97 miles northeast of Los Angeles and 35 miles northeast of San Bernardino. The District boundaries encompass the incorporated boundaries of the City of Victorville and the surrounding unincorporated areas lying within the service area of the Victorville Water District

4. Does the application possess 100% written consent of each landowner in the subject territory?
YES ___ NO X If YES, provide written authorization for change.

5. Indicate the reasons that the proposed action has been requested: The City of Victorville currently supplies reclaimed water for irrigation to the Westwinds Golf Course that is purchased from the Victor Valley Waste Water Reclamation Authority (VWRA). Recently, the City has entered into an agreement with the High Desert Power Project (HDPP) to supply reclaimed water for cooling purposes. The construction of the City's Industrial Waste Water Treatment Plant is nearing completion and the resulting reclaimed water may be used for reuse at both the Westwinds Golf Course and HDPP. The City desires for the Victorville Water District to provide this service, in line with the District's water conservation program to be more efficient and cost effective.

6. Would the proposal create a totally or substantially surrounded island of unincorporated territory?

YES ___ NO X If YES, please provide a written justification for the proposed boundary

Configuration.

LAND USE AND DEVELOPMENT POTENTIAL

1. Total land Area (defined in acres):
Approximately 54,352 acres

2. Current dwelling units in area:
Approximately 30,000 dwelling units

3. Approximate current population:
Approximately 106,121

4. Indicate the General Plan designation(s) of the affected city (if any) and uses permitted by this designation(s):
Very Low Density (VLR), Low Density (LDR), Medium Density (MedR), High Density (HDR), Mixed Density (MDR), Office/Professional (OP), Commercial (OM), Light Industrial (LI), Heavy Industrial (HI), Mixed Use-High Density (MU), Public/Institutional (PI), Open Space (OS), and Specific Plan (SP)

San Bernardino County General Plan designation(s) and uses permitted by this designation(s):
Mountain View Acres south – RL, Rural Living – single family residences on 2.5 acre lots; RS, Single Residential – single family residences on 1 acre lots; RS-14M, Single Residential on 14,000 square foot lots – single family residences on 14,000 square foot lots.
Mountain View Acres north – RL, Rural Living – single family residences on 2.5 acre lots.
Baldy Mesa (western sphere) – RL, Rural Living – single family residences on 2.5 acre lots and RS-1, Single Residential on 1 acre minimum lots.

5. Describe any special land use concerns expressed in the above plans.
None

6. Indicate the existing land use.
Very Low Density (VLR), Low Density (LDR), Medium Density (MedR), High Density (HDR), Mixed Density (MDR), Office/Professional (OP), Commercial (OM), Light Industrial (LI), Heavy Industrial (HI), Mixed Use-High Density (MU), Public/Institutional (PI), Open Space (OS), and Specific Plan (SP)
Mostly single family residential dwellings, higher in density closer to the city core, with more vacant lots located farther away from the city.

What is the proposed land use?

Same as is currently existing - Very Low Density (VLR), Low Density (LDR), Medium Density (MedR), High Density (HDR), Mixed Density (MDR), Office/Professional (OP), Commercial (OM), Light Industrial (LI), Heavy Industrial (HI), Mixed Use-High Density (MU), Public/Institutional (PI), Open Space (OS), and Specific Plan (SP)

7. For a city annexation, State law requires pre-zoning of the territory proposed for annexation. Provide a response to the following:

- a. Has pre-zoning been completed? YES ___ NO ___ N/A X
- b. If the response to "a" is NO, is the area in the process of pre-zoning? YES ___ NO ___

Identify below the pre-zoning classification, title, and densities permitted. If the pre-zoning process is underway, identify the timing for completion of the process.

N/A – Not Applicable

8. On the following list, indicate if any portion of the territory contains the following by placing a checkmark next to the item:

- Agricultural Land Uses
- Williamson Act Contract
- Any other unusual features of the area or permits required:
- Agricultural Preserve Designation
- Area where Special Permits are Required

Mojave River

9. If a Williamson Act Contract(s) exists within the area proposed for annexation to a City, please provide a copy of the original contract, the notice of non-renewal (if appropriate) and any protest to the contract filed with the County by the City. Please provide an outline of the City's anticipated actions with regard to this contract.

N/A – Not Applicable

10. Will the proposal require public services from any agency or district which is currently operating at or near capacity (including sewer, water, police, fire, or schools)? YES ___ NO X If YES, please explain.

N/A – Not Applicable

ENVIRONMENTAL INFORMATION

1. Provide general description of the topography. Generally flat desert area with rock outcroppings in the vicinity of the Mojave River and northern areas around Quartzite Mountain with slight sloping from the southwest to the northeast towards the Mojave River.

2. Describe any existing improvements on the site as % of total area.

| | | | |
|-------------|------------|--------------|------------|
| Residential | <u>50%</u> | Agricultural | <u>1%</u> |
| Commercial | <u>20%</u> | Vacant | <u>25%</u> |
| Industrial | <u>4%</u> | Other | <u>0%</u> |

3. Describe the surrounding land uses:

| | |
|-------|---|
| NORTH | <u>Residential, Vacant Land, Mining</u> |
| EAST | <u>Residential, Commercial</u> |
| SOUTH | <u>Residential, Commercial, Vacant Land</u> |
| WEST | <u>Residential, Industrial, Vacant Land</u> |

4. Describe site alterations that will be produced by improvement projects associated with this proposed action (installation of water facilities, sewer facilities, grading, flow channelization, etc.)

N/A – Not Applicable

5. Will service extensions accomplished by this proposal induce growth on this site? YES ___
NO X Adjacent sites? YES ___ NO X Unincorporated ___ Incorporated X

N/A – Not Applicable

6. Is this project a part of a larger project or series of projects? YES ___ NO X If YES proposed action (installation of water facilities, sewer facilities, grading, flow channelization, ect.)

N/A – Not Applicable

NOTICES

Please provide the names and addresses of persons who are to be furnished mailed notice of the hearing(s) and receive copies of the agenda and staff report.

NAME James L. Cox, City Manager TELEPHONE NO. (760) 955-5000

ADDRESS:

14343 Civic Drive, P.O. Box 5001, Victorville, CA 92393-5001

NAME John A. McGlade, City Engineer TELEPHONE NO. (760) 955-5155

ADDRESS:

14343 Civic Drive, P.O. Box 5001, Victorville, CA 92393-5001

NAME _____ TELEPHONE NO. _____

ADDRESS:

CERTIFICATION

I hereby certify that the statements furnished above and in the attached supplements and exhibits present the data and information required for this initial evaluation to the best of my ability, and that the facts, statements, and information presented herein are true and correct to the best of my knowledge and belief. I understand that if this proposal is approved, the Commission will impose a condition requiring the applicant to indemnify, hold harmless and reimburse the Commission for all legal actions that might be initiated as a result of that approval.

DATE 6/9/11

John A. McGlade
SIGNATURE OF APPLICANT

John A. McGlade
PRINTED NAME OF APPLICANT

City Engineer/Director Public Works
TITLE

PLEASE CHECK SUPPLEMENTAL FORMS ATTACHED:

- ANNEXATION, DETACHMENT, REORGANIZATION SUPPLEMENT
- SPHERE OF INFLUENCE CHANGE SUPPLEMENT
- CITY INCORPORATION SUPPLEMENT
- FORMATION OF A SPECIAL DISTRICT SUPPLEMENT
- ACTIVATION OF LATENT POWERS SUPPLEMENT

APPLICATION TO BE SUBMITTED TO:

LOCAL AGENCY FORMATION COMMISSION
215 NORTH D STREET, SUITE 204
SAN BERNARDINO, CA 92415-0490
PHONE: (909)383-9900 • FAX: (909) 383-9901
E-MAIL ADDRESS: lafco@lafco.sccounty.gov

SUPPLEMENT ACTIVATION OF NEW OR DIFFERENT SERVICES SPECIAL DISTRICT

INTRODUCTION: The questions on this form are designed to obtain data about the specific service(s) requested to be authorized for the district. The purpose is to allow the Commission, staff and others to adequately assess the project. You may also include any additional information which you believe is pertinent, using additional sheets, where necessary, and including any relevant documents to support the project.

1. Please identify the function(s)/service(s) proposed for activation:

Example: (function) Water (Service) Retail, wholesale, domestic, industrial, irrigation, fire protection, sanitation

| | |
|---|---|
| <p>FUNCTION <u>Reclaimed Water (Conservation)</u> <u>Sewer</u></p> | <p>SERVICE <u>Retail Industrial and irrigation, fire protection</u> <u>Retail domestic, industrial, sanitation</u></p> |
|---|---|

2. Provide a statement of the reason(s) for the proposal which shall include, but not be limited to, a description of any existing service deficiency, general plan determinations (existing or anticipated change necessitating service), anticipated growth rate (please identify source of data), topography, etc.

The Victorville Water District (the "District") currently provides water conservation services to its customers and requests that the reclaimed water and sewer services be activated. The City of Victorville (the "City") currently provides reclaimed water to the City's Westwinds Golf Course. The District plans to assume that service and begin a new Reclaimed Water Service to provide water to the High Desert Power Project (HDPP).

3. What service(s) was the District authorized to provide at the time of its formation? (Would be identified in final resolution approving formation or included in election decision – a copy of this document may be attached to fulfill this requirement.)

Water Service

4. Provide an identification of any multiple purpose districts within the area authorized to provide the identified function/service activation. Include a description as to why the preferred choice has been made.

The City of Victorville Sewer Department and the Victorville Water District boundaries are very similar with the exception of unincorporated county areas which are not a part of the Sewer Department. The Victorville Water District is a subsidiary district of the City of Victorville. The Plan for Services calls for the Water District to use a portion of sewer discharge as well as the industrial discharges at the Southern California Logistics Airport (SCLA) service area to provide treated water for irrigation and industrial use.

5. PLAN FOR SERVICES:

The requirements for the Plan for Service are outlined in Government Code Section 56824.12 and are summarized below:

1. The total estimated cost to provide the new or different function or class of service within the District's boundaries.
2. The estimated cost of the new or different function or service to existing customers within the district's jurisdictional boundaries. (The cost can be identified by customer class).
3. An identification of existing providers, if any, of the function(s)/service(s) and the potential fiscal impact of this activation to the customers of those providers.
4. A plan for financing the establishment of the new or different function/service within the district's jurisdictional boundaries. A discussion about the sufficiency of revenues to fund the anticipated ongoing maintenance and operation of the service is also required. This plan should include:
 - a. An indication of whether territory is or will be proposed for inclusion within a proposed improvement zone/district, assessment district, or community facilities district to fund the service.
 - b. If retail water service is proposed to be activated through this action, provide a description of the timely availability of water for projected needs within the area. (The response should be patterned after the factors identified in Government Code Section 65352.5 related to an Urban Water Management Plan.)
5. A discussion of the alternatives to the establishment of the new or different service within the District's boundaries/service area.

This plan shall, at a minimum, respond to each of the items identified above and shall be signed and certified as to its completeness and accuracy by an official of the requesting agency.

Please refer to attached PLAN FOR SERVICES.

CERTIFICATION

I hereby certify that the statements furnished above and in any attachments and exhibits hereto present the data and information required to the best of my ability, and that the facts, statements, and information presented herein are true and correct to the best of my knowledge and belief. I understand that if this application is approved, the Commission will impose a condition requiring the applicant to indemnify, hold harmless and reimburse the Commission for all legal actions that might be initiated as a result of that approval.

DATE _____

SIGNATURE OF APPLICANT

PRINTED NAME

TITLE

RESOLUTION NO. VWD-09-003

RESOLUTION OF THE BOARD OF DIRECTORS OF THE VICTORVILLE WATER DISTRICT APPROVING A LEASE AGREEMENT, AN INDENTURE OF TRUST, AN INSTALLMENT SALE AGREEMENT, AND A PRIVATE PLACEMENT MEMORANDUM IN CONNECTION WITH THE ISSUANCE BY THE VICTORVILLE JOINT POWERS FINANCING AUTHORITY OF ITS WASTEWATER REVENUE NOTES, 2009 SERIES (TAXABLE), AND APPROVING THE TAKING OF CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH

WHEREAS, the Victorville Joint Powers Financing Authority (the "Authority"), is a joint exercise of powers agency duly created, established and authorized to transact business and exercise its powers, all under and pursuant to the Joint Exercise of Powers Act (Articles 1 through 4 of Chapter 5, Division 7, Title 1 of the California Government Code) (the "Act") and the powers of such Authority include the power to issue bonds for any of its corporate purposes; and

WHEREAS, the City of Victorville (the "City") owns and operates that certain wastewater collection system referred to herein as the "Wastewater Enterprise;" and

WHEREAS, the City desires to finance the construction of a wastewater treatment plant (with reclaimed water production capabilities) as well as certain other improvements to the Wastewater Enterprise (the "Improvements"); and

WHEREAS, it has been proposed that the Authority assist the City in providing funds to finance such Improvements by issuing taxable notes (the "Notes"), which will be privately placed with an accredited investor; and

WHEREAS, the Victor Valley Water District and the Baldy Mesa Water District were merged into Victorville Water District (the "Water District"); a subsidiary district of the City; and

WHEREAS, the Water District provides water service to service area/territory of the merged districts (the "Water Enterprise"); and

WHEREAS, the Water District functions under, and is authorized to carry out all authorized duties and responsibilities assigned to a county water district, which includes wastewater services; and

WHEREAS, the City Council previously made findings that administering the City's Wastewater Enterprise in the same manner and under the jurisdiction of the Water District together with the Water Enterprise will result in operational and administrative efficiencies and will enhance the Authority's ability to issue and sell the Notes; and

WHEREAS, the City Council previously directed staff to solicit a proposal from the Water District to lease the Wastewater Enterprise from the City; and

WHEREAS, the City Council has held a public hearing to examine the proposal and the staff recommendations relating to such proposal received by the City; and

WHEREAS, upon reviewing and examining the proposal received and the staff's recommendations and the views expressed at the public hearing, the City Council has determined that significant benefits will result from the lease of the Wastewater Enterprise; and

WHEREAS, simultaneously with the delivery of the Notes, the Water District will lease the Wastewater Enterprise from the City pursuant to a lease agreement; and

WHEREAS, the Notes will be used finance the Improvements which will be purchased by the Water District pursuant to an installment sale agreement; and

WHEREAS, the Water District, with the aid of its staff, has reviewed the documentation relating to the lease of the Wastewater Enterprise and the issuance of the Notes; and

WHEREAS, the Water District has previously adopted Resolution No. VWD-09-001, which resolution has been rescinded; and

WHEREAS, since the date of adoption of Resolution No. VWD-09-001, no changes have occurred with respect the Notes;

NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE VICTORVILLE WATER DISTRICT DOES HEREBY RESOLVE AS FOLLOWS:

Section 1. The Water District hereby approves the Wastewater Enterprise Lease Agreement, substantially in the form annexed hereto, with such revisions, amendments and completions as shall be approved by the Chairman, Executive Director, Director of Water District or their designees (each a "Responsible Officer") with the advice of counsel to the Water District, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 2. The Water District hereby approves the Indenture of Trust relating to the Notes, substantially in the form annexed hereto, with such revisions, amendments and completions as shall be approved by a Responsible Officer with the advice of counsel to the City, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 3. The Water District hereby approves the Installment Sale Agreement relating to the Notes, substantially in the form annexed hereto, with such revisions, amendments and completions as shall be approved by a Responsible Officer with the advice of counsel to the City, such approval to be conclusively evidenced by the execution and delivery thereof.

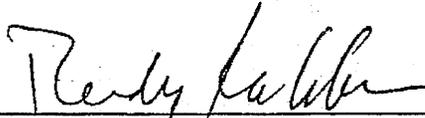
Section 4. The Water District hereby approves the Private Placement

Memorandum prepared in connection with the issuance of the Notes (the "PPM"), substantially in the form annexed hereto, with such revisions, amendments and completions as shall be approved by a Responsible Officer with the advice of bond counsel and co-disclosure counsel to the Authority. Any Responsible Officer is authorized and directed to execute and deliver the PPM with such additions and changes as may be approved by the Responsible Officer executing the same, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 5. Any Responsible Officer is hereby authorized and directed to execute and deliver any and all documents and to do and cause to be done any and all acts and things necessary or proper for carrying out the transactions contemplated by this Resolution.

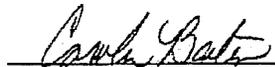
Section 6. The Secretary shall certify to the adoption of this Resolution, and thenceforth and thereafter the same shall be in full force and effect.

PASSED, APPROVED AND ADOPTED this 5th day of MAY 2009



CHAIRMAN OF THE BOARD OF DIRECTORS

ATTEST:



BOARD SECRETARY

APPROVED AS TO FORM:



LEGAL COUNSEL FOR VICTORVILLE WATER DISTRICT

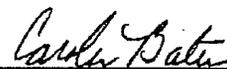
I, CAROLEE BATES, City Clerk of the City of Victorville and ex-officio Clerk to the Victorville Water District of said City, DO HEREBY CERTIFY that the foregoing is a true and correct copy of Resolution No. VWD 09-003 and was adopted at a meeting held on the 5th day of May 2009, by the following roll call vote, to wit:

AYES: Board Members Almond, Cabriales, Caldwell, McEachron and
Rothschild

NOES: None

ABSENT: None

ABSTAIN: None



CITY CLERK OF THE CITY OF VICTORVILLE

WASTEWATER ENTERPRISE LEASE AGREEMENT

Dated as of April __, 2009

by and between

VICTORVILLE WATER DISTRICT,
as Lessee

and the

CITY OF VICTORVILLE
as Lessor

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WASTEWATER ENTERPRISE LEASE AGREEMENT

THIS WASTEWATER ENTERPRISE LEASE AGREEMENT, dated as of April __, 2009 (the "Lease Agreement"); is by and between the VICTORVILLE WATER DISTRICT, a county water district and a subsidiary district of the City of Victorville duly organized and existing under the laws of the State of California (the "Water District"), and the CITY OF VICTORVILLE, a charter city and municipal corporation duly organized and existing under the laws of the State of California (the "City"),

WITNESSETH:

WHEREAS, the City owns, operates and controls the wastewater collection system within the City (the "Leased Property") and has further established certain funds and accounts which relate to the Leased Property; and

WHEREAS, the Water District wishes to lease the Leased Property from the City, and the City wishes to lease the Leased Property to the Water District, and the Water District is authorized to lease and operate the Leased Property; and

WHEREAS, the Water District and the City have duly authorized the execution and delivery of this Lease Agreement;

NOW, THEREFORE, for and in consideration of the promises and the material covenants hereinafter contained, the parties hereto hereby formally covenant, agree and bind themselves as follows:

ARTICLE 1

DEFINITIONS

Section 1.1 Definitions. The terms defined in this Section shall have the meanings ascribed to them in this Section for purposes of this Lease Agreement unless the context clearly indicates some other meaning. All capitalized terms used herein which are defined in the Installment Sale Agreement and not defined herein shall have the meanings specified in the Installment Sale Agreement.

"Agreement" means this Lease Agreement, together with any duly authorized and executed amendments hereto.

"Closing Date" means _____, 2009.

"Discount Rate" means [6.0%].

"Enterprise" means the entire wastewater system owned, leased or operated by the Water District, including but not limited to all facilities, properties and improvements at any time owned, leased or operated by the Water District for the collection and treatment of wastewater, and any necessary lands, rights, entitlements and other property useful in connection therewith,

together with all extensions thereof and improvements thereto hereafter acquired, constructed or installed by the City or the Water District, including the Leased Property.

"Event of Default" means any of the events described in Section 8.1.

"Financing Authority" means the Victorville Joint Powers Financing Authority.

"Gross Revenues" means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Enterprise, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the Water District from the sale, furnishing and supplying of wastewater treatment 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 Enterprise including, without limitation, reclaimed water, plus (2) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, or other moneys, including Water District reserves as it relates to the Enterprise, 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 Water District and accounted for as revenues and excluding any proceeds of taxes required by law to be used by the Water District to pay bonds hereafter issued.

"Installment Sale Agreement" means the Installment Sale Agreement, dated as of May 1, 2009, by and between the Financing Authority and the City, or such other installment sale agreement executed in connection with the refunding the Installment Sale Agreement.

"Lease" means the lease of the Leased Property pursuant to this Agreement.

"Lease Payments" means the amounts payable by the Water District pursuant to Section 4.2, including any prepayments thereof pursuant to Article 9.

"Leased Property" means the entire wastewater system owned or operated by the City, including, but not limited to, all facilities, properties and improvements at any time owned or operated by the City for the collection and treatment of wastewater, including, but not limited to, those certain existing reclaimed water lines for the transmission of reclaimed water to the City from the Victor Valley Wastewater Reclamation Authority, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto hereafter acquired, constructed or installed by the City, including, without limitation, properties and improvements contributed as a result of new development.

"Operation and Maintenance Costs" means the reasonable and necessary costs and expenses paid by the Water District for maintaining and operating the Enterprise, including but not limited to (a) the cost of utilities, including electricity and other forms of energy supplied to the Enterprise, and (b) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Enterprise in good repair and working order, but in all cases excluding (i) depreciation, replacement and obsolescence charges or reserves therefor and (ii) amortization of intangibles or other bookkeeping entries of a similar nature.

"Payment Date" means the tenth day of each June and December, or as otherwise agreed to in writing by the parties hereto.

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

"Surplus Revenues" means, for any period, an amount equal to all of the Net Revenues minus (i) the amount required to be paid under the Installment Sale Agreement during such period, (ii) the amount required to pay debt service on any obligations incurred by the Water District with respect to the Enterprise becoming payable during such period, and (iii) amounts set aside for capital replacements and improvements.

"Term of this Agreement" means the time during which this Lease Agreement is in effect, as provided in Section 4.1.

"Total Rent" shall mean the total rent having an aggregate present value, when computed as of the Closing Date, of an amount to be agreed upon by the parties hereto subsequent to the Closing Date that represents the fair value of the Leased Property as of June 30, 2009. Such amount shall be determined within 90 days after the audited financial statements of the City become available. To the extent the City acquires additional properties or improvements relating to the Enterprise, including, without limitation, properties and improvements contributed as a result of new development, which properties shall become a component of the Leased Property, the Total Rent shall be increased by the agreed upon value of such added properties.

"Wastewater Enterprise Fund" means the City's existing Wastewater Enterprise Fund to be held by the Water District.

ARTICLE 2

COVENANTS AND REPRESENTATIONS

Section 2.1 Covenants and Representations of the City. The City makes the following covenants and representations to the Water District that as of the Closing Date:

(a) The City is a charter city and municipal corporation duly organized and validly existing under the laws of the State, has full legal right, power and authority to enter into this Agreement and to carry out and consummate all transactions contemplated hereby, and by proper action has duly authorized the execution and delivery of this Agreement.

(b) The representatives of the City executing this Agreement are fully authorized to execute the same.

(c) This Agreement has been duly authorized, executed and delivered by the City, and constitutes the legal, valid and binding agreement of the City, enforceable against the City in accordance with its terms.

(d) The execution and delivery of this Agreement, the consummation of the transactions herein contemplated and the fulfillment of or compliance with the terms and conditions hereof, will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the City is a party or by which it or its Enterprise are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the City, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Agreement, or the financial condition, assets, property or operations of the Enterprise.

(e) No consent or approval of any trustee or holder of any indebtedness of the City or of the voters of the City, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of this Agreement or the consummation of any transaction herein and therein contemplated, except as have been obtained or made and as are in full force and effect.

(f) There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or threatened against or affecting the City or the Enterprise which, if determined adversely to the City or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of this Agreement or upon the financial condition or operation of the Enterprise, and the City is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Agreement, or the financial conditions or operations of the Enterprise.

Section 2.2 Covenants and Representations of the Water District. The Water District makes the following covenants and representations as the basis for its undertakings herein contained:

(a) The Water District is a county water district and a subsidiary district of the City, duly organized and existing under the laws of the State. The Water District has the full right, authority and power to enter into the transactions contemplated by this Agreement and to carry out and consummate all transactions contemplated hereunder. By proper action of its governing body, the Water District has been duly authorized to execute, deliver and duly perform this Agreement.

(b) The Water District is not in default under any of the provisions of the laws of the State, which default would affect its existence or its powers referred to in subsection (a) of this Section 2.2.

(c) This Agreement has been duly authorized, executed and delivered by the Water District, and constitutes the legal, valid and binding agreement of the Water District, enforceable against the Water District in accordance with its terms.

ARTICLE 3

LEASE AND OPERATION OF OF LEASED PROPERTY

Section 3.1 Lease of the Leased Property. The Water District agrees to lease the Leased Property from the City, and the City agrees to lease, and hereby does lease, such Leased Property to the Water District, for the Total Rent.

Section 3.2 Operation of the Leased Property. The Water District assumes all rights, liabilities, duties and responsibilities of the City regarding the operation and maintenance of the Leased Property. The Water District shall assume, enter into, administer and enforce all contracts or other agreements relating to the operation and maintenance of the Leased Property. All contracts relating to the acquisition, operation and maintenance of the Leased Property shall be subject to all applicable provisions of law relating to like property operated by a county water district.

ARTICLE 4

LEASE PAYMENTS

Section 4.1 Term. The Term of this Agreement shall commence on the Closing Date, and shall end on _____, 2064. Upon termination of this Agreement, all rights, liabilities, duties and responsibilities regarding the Leased Property shall return to and be vested in the City and the Water District shall have no further interest therein. The provisions of this Section 4.1 are subject in all respects to any other provisions of this Agreement relating to the termination hereof.

Section 4.2 Lease Payments.

(a) **Obligation to Pay.** The Water District agrees to pay to the City, its successors and assigns, but solely from the Surplus Revenues and other funds pledged hereunder, Lease Payments totaling the Total Rent. Lease Payments shall be paid by the Water District to the City, on each Payment Date or other dates as agreed to in writing between the City and the Water District, in amounts determined by agreement from time to time of the City and the Water District.

(b) **Effect of Prepayment.** In the event that the Water District prepays all remaining Lease Payments in full pursuant to Article 9, only the Water District's obligations under this Agreement to pay Lease Payments therefor under this Section 4.2 shall cease and terminate.

Section 4.3 Pledge and Application of Surplus Revenues.

(a) **Pledge of Surplus Revenues.** All of the Surplus Revenues are hereby irrevocably pledged, charged and assigned by the Water District to the punctual payment of the Lease

Payments and the Surplus Revenues and such other funds shall not be used for any other purpose (except capital improvements, including debt service on bonded indebtedness or other obligations incurred by the Water District in connection with the Enterprise, and other lawful purposes related to the Enterprise) so long as any of the Lease Payments remain unpaid. Such pledge, charge and assignment shall constitute a first lien on the Surplus Revenues and such other moneys for the payment of the Lease Payments in accordance with the terms hereof.

(b) Deposits Into Wastewater Enterprise Fund. There is hereby continued the Wastewater Enterprise Fund, which is to be held and administered by the Water District. The Water District shall deposit all of the Gross Revenues immediately upon receipt in the Wastewater Enterprise Fund. The Water District shall, from the moneys in the Wastewater Enterprise Fund, make disbursements as required under Section 4.5 (or such comparable section) of the Installment Sale Agreement. Amounts constituting Surplus Revenues in the Wastewater Enterprise Fund shall be used to make Lease Payments as such payments become due and payable.

(c) Budget and Appropriation of Lease Payments. During the Term of this Agreement, the Water District, with the assistance of the City, shall adopt and make all necessary budgets and appropriations of the Lease Payments from the Surplus Revenues. In the event any Lease Payment requires the adoption by the Water District of any supplemental budget or appropriation, the Water District shall promptly adopt the same. The covenants on the part of the Water District contained in this subsection (c) shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the Water 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 Water District to carry out and perform the covenants and agreements in this subsection (c).

Section 4.4 Special Obligation of the Water District; Obligations Absolute. The Water District's obligation to pay the Lease Payments hereunder shall be a special obligation of the Water District limited solely to the Surplus Revenues. Under no circumstances shall the Water District be required to advance moneys derived from any source of income other than the Surplus Revenues and other sources specifically identified herein for the payment of the Lease Payments, nor shall any other funds or property of the Water District be liable for the payment of the Lease Payments and any other amounts coming due and payable hereunder.

The obligations of the Water District to make the Lease Payments from the Surplus Revenues and to perform and observe the other agreements contained herein shall be absolute and unconditional and shall not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the City of any obligation to the Water District or otherwise with respect to the Enterprise, whether hereunder or otherwise, or out of indebtedness or liability at any time owing to the Water District by the City. Until such time as all of the Lease Payments and all other amounts coming due and payable hereunder shall have been fully paid or prepaid, the Water District (a) will not suspend or discontinue payment of any Lease Payments or such other amounts, and (b) will perform and observe all other agreements contained in this Agreement.

In the event the City shall fail to perform any of its agreements contained herein, the Water District may institute such action against the City as the Water District may deem necessary to compel performance so long as such action does not abrogate the obligations of the Water District contained in the preceding paragraph. The Water District may, however, at the Water District's own cost and expense and in the Water District's own name prosecute or defend any action or proceeding or take any other action involving third persons which the Water District deems reasonably necessary in order to secure or protect the Water District's rights hereunder, and in such event the Water District hereby agrees to cooperate fully with the City and to take such action necessary to effect the substitution of the City for the Water District in such action or proceeding, if the Water District shall so request.

Section 4.5 Rates, Fees and Charges. The Water District, through the actions of the City, shall fix, prescribe, revise and collect rates, fees and charges for the Enterprise as a whole for the service and improvements furnished by the Enterprise during each Fiscal Year that are at least sufficient, after making allowances for contingencies and error in the estimates to yield Surplus Revenues that are sufficient to pay scheduled Lease Payments.

ARTICLE 5

MAINTENANCE; TAXES, INSURANCE; AND OTHER MATTERS

Section 5.1 Maintenance, Utilities, Taxes and Assessments. Throughout the Term of this Agreement, all improvement, repair and maintenance of the Enterprise shall be the responsibility of the Water District, and the Water District shall pay for or otherwise arrange for the payment of all utility services supplied to the Enterprise, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Enterprise resulting from ordinary wear and tear.

The Water District shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Water District affecting the Enterprise or its interest or estate therein; provided, however, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Water District shall be obligated to pay only such installments as are required to be paid during the Term of this Agreement as and when the same become due.

The Water District may, at the Water District's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the City shall notify the Water District that, in its opinion, by nonpayment of any such items, the interest of the City hereunder will be materially adversely affected, in which event the Water District shall promptly pay such taxes, assessments or charges or provide the City with full security against any loss which may result from nonpayment, in form satisfactory to the City.

Section 5.2 Operation of Enterprise. The Water District covenants and agrees to operate the Enterprise in an efficient and economical manner and to operate, maintain and

preserve the Enterprise in at least as good repair and working order as on the effective date of this Agreement. The Water District covenants that, in order to fully preserve and protect the priority and security of the Lease Payments, the Water District shall pay from the Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Enterprise which, if unpaid, may become a lien or charge upon the Gross Revenues or the Surplus Revenues prior or superior to the lien granted hereunder, or which may otherwise impair the ability of the Water District to pay the Lease Payments in accordance herewith. The Water District shall be responsible for any fines, liabilities, or other debts coming due as a result of the operation of the Enterprise.

Section 5.3 Insurance. The Water District shall maintain or cause to be maintained, throughout the Term of this Agreement, but only if and to the extent available at reasonable cost from reputable insurers, such insurance required to be maintained under the Installment Sale Agreement and shall cause insurance proceeds to be applied as provided therein.

Section 5.4 Eminent Domain. The Water District shall cause amounts received as awards as a result of the taking of all or any part of the Enterprise by the lawful exercise of eminent domain to be applied in accordance with the Installment Sale Agreement.

Section 5.5 Records and Accounts. The Water District shall keep proper books of records and accounts of the Enterprise, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Enterprise. Said books shall, upon prior request, be subject to the reasonable inspection by the City or its representatives authorized in writing. The Water District shall cause the books and accounts of the Enterprise to be audited annually by an Independent Accountant, not more than two hundred forty (240) days after the close of each Fiscal Year, and shall make a copy of such report available for inspection by the City at the office of the Water District.

ARTICLE 6

DISCLAIMER OF WARRANTIES; ACCESS

Section 6.1 Disclaimer of Warranties. The City makes no warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the Water District of the Enterprise, or any other representation or warranty with respect to the Enterprise. In no event shall the City be liable for incidental, indirect, special or consequential damages in connection with or arising out of this Agreement for the existence, furnishing, functioning or the Water District's use of the Enterprise.

Section 6.2 Release and Indemnification Covenants. The Water District shall and hereby agrees to indemnify and save the City, and its respective officers, agents, successors and assigns harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (a) the use, maintenance, condition or management of, or from any work or thing done on the Enterprise by the Water District, (b) any breach or default on the part of the Water District in the performance of any of its obligations under this Agreement, (c) any negligence or willful misconduct of the Water District or of any of its agents, contractors,

servants, employees or licensees with respect to the Enterprise, (d) any act or negligence of any sublessee of the Water District with respect to the Enterprise, or (e) the presence on, under or about, or release from, the Enterprise of any substance, material or waste which is, or which becomes, regulated or classified as hazardous or toxic under State, federal or local law. No indemnification is made under this Section 6.2 or elsewhere in this Agreement for adjudicated willful misconduct or negligence by the City, or its respective officers, employees, successors or assigns. The obligations of the Water District under this Section 6.2 shall survive the termination of this Agreement.

Section 6.3 Non-Liability of City for Enterprise Obligations. The City and its successor and assigns shall have no obligation and shall incur no liabilities or debts whatsoever for the obligations, liabilities and debts of the Water District incurred in connection with the lease and operation of the Enterprise.

ARTICLE 7

ASSIGNMENT, SALE AND AMENDMENT

Section 7.1 Assignment. This Agreement may not be assigned by the Water District or the City.

Section 7.2 Sale of Enterprise. Subject to the provisions of the Installment Sale Agreement, the Water District and the City each covenant that their respective interests in the Enterprise shall not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole, except to another public entity whose governing body is comprised of members of the Victorville City Council. Neither the Surplus Revenues nor any other funds pledged or otherwise made available to secure payment of the Lease Payments shall be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used except as authorized by the terms of this Agreement. The Water District shall not enter into any agreement which impairs the operation of the Enterprise or any part of it necessary to secure adequate Surplus Revenues to pay the Lease Payments, or which otherwise would impair the rights of the City with respect to the Surplus Revenues. If any substantial part of the Enterprise shall be sold, the payment therefor shall either (a) be used for the lease, acquisition or construction of improvements, extensions or replacements of Enterprise, or (b) to be applied to prepay the Water District's obligations pursuant to the Installment Sale Agreement.

Section 7.3 Amendment of Agreement. The City and the Water District shall have the right to modify or amend this Agreement upon the written consent of each party hereto.

ARTICLE 8

EVENTS OF DEFAULT

Section 8.1 Events of Default Defined. The following events shall be Events of Default hereunder:

(a) Failure by the Water District to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than failure to pay when due any Lease Payment or other amount due under this Agreement, for a period of sixty (60) days after written notice specifying such failure and requesting that it be remedied has been given to the Water District by the City; provided, however, that if the Water District shall notify the City that in its reasonable opinion the failure stated in the notice can be corrected, but not within such 60-day period, such failure shall not constitute an event of default hereunder if the Water District shall commence to cure such failure within such sixty (60) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

(b) The filing by the Water District of a voluntary petition in bankruptcy, or failure by the Water District promptly to lift any execution, garnishment or attachment, or adjudication of the Water District as a bankrupt, or assignment by the Water District for the benefit of creditors, or the entry by the Water District into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Water District in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

Section 8.2 Remedies on Default. Whenever any Event of Default shall have happened and be continuing, the Water District, upon receipt of actual knowledge thereof, shall promptly give written notice thereof to the City, and the City shall have the right, at its option and without any further demand or notice, to

(a) take whatever action at law or in equity may appear necessary or desirable to collect the Lease Payments then due or thereafter to become due during the Term of this Agreement, or enforce performance and observance of any obligation, agreement or covenant of the Water District under this Agreement; and

(b) as a matter of right, in connection with the filing of a suit or other commencement of judicial proceedings to enforce the rights of the City hereunder, cause the appointment of a receiver or receivers of the Surplus Revenues and other amounts pledged hereunder, with such powers as the court making such appointment shall confer; provided, however, that the City shall not have the right to declare all principal components of the unpaid Lease Payments, together with accrued interest thereon, to be immediately due and payable.

Section 8.3 No Remedy Exclusive. No remedy herein conferred upon or reserved to the City is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the City to exercise any remedy reserved to it in this Article 8 it shall not be necessary to give any notice, other than such notice as may be required in this Article 8 or by law.

Section 8.4 Agreement to Pay Attorneys' Fees and Expenses. In the event either party to this Agreement should default under any of the provisions hereof and the nondefaulting

party should employ attorneys or incur other expenses for the collection of moneys or the enforcement or performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will on demand therefor pay to the nondefaulting party the reasonable fees of such attorneys and such other expenses so incurred. In the event that there is a disagreement as to the defaulting party, the prevailing party in any litigation, arbitration or other proceeding by which one party seeks to enforce its rights under this Agreement, or seeks a declaration of any rights or obligations under this Agreement, shall be awarded its reasonable attorneys' fees, costs and expenses.

Section 8.5 No Additional Waiver Implied by One Waiver. In the event any agreement contained in this Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

ARTICLE 9

PREPAYMENT OF LEASE PAYMENTS

Section 9.1 Security Deposit. Notwithstanding any other provision of this Agreement, the Water District may on any date secure the payment of Lease Payments in whole or in part by irrevocably depositing with the City an amount of cash which is either (a) sufficient to pay all such Lease Payments, or (b) invested in whole or in part in non-callable Federal Securities in such amount as will, in the written opinion of an Independent Accountant, together with interest to accrue thereon and together with any cash which is so deposited, be fully sufficient to pay all such Lease Payments when due pursuant to Section 4.2(a) or when due on any optional prepayment date pursuant to Section 9.2, as the Water District shall instruct at the time of said deposit. In the event of a security deposit pursuant to this Section 9.1 with respect to all of the Lease Payments, all obligations of the Water District under this Agreement, and all security provided by this Agreement for said obligations, shall cease and terminate, excepting only the obligation of the Water District to make, or cause to be made, all of such Lease Payments from such security deposit, and the obligation of the Water District to compensate and indemnify the City pursuant to Section 6.2 herein. Said security deposit shall be deemed to be and shall constitute a special fund for the payment of Lease Payments in accordance with the provisions of this Agreement.

Section 9.2 Optional Prepayment. The Water District may prepay the Lease Payments without penalty in whole or in part, on any date.

Section 9.3 Mandatory Prepayment From Proceeds of Insurance, Sale or Eminent Domain. The Water District shall be obligated to prepay the Lease Payments on any date from and to the extent of any proceeds of insurance award, sale of a substantial portion of the Enterprise or condemnation award with respect to the Enterprise subject to the first lien thereon under the Installment Sale Agreement.

ARTICLE 10

MISCELLANEOUS

Section 10.1 Further Assurances. The City agrees that it will execute and deliver any and all such further agreements, instruments or other assurances as may be reasonably necessary or requested by the Water District to carry out the intention or to facilitate the performance of this Agreement.

Section 10.2 Notices. Any notice, request, complaint, demand or other communication under this Agreement shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or by telecopy, telex or other form of written telecommunication, at its number set forth below. Notice shall be effective either (a) upon confirmed transmission by telecopy, telex or other form of written telecommunication, (b) 48 hours after deposit in the United States mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The Water District and the City may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

If to the Water District: Victorville Water District
 17185 Yuma Street
 Victorville, California 92392
 Attn: Director of Water District

If to the City: City of Victorville
 14343 Civic Drive
 Victorville, California 92392
 Attn: City Manager

Section 10.3 Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State of California.

Section 10.4 Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon the Water District and the City, and their respective successors and assigns, subject, however, to the limitations contained herein.

Section 10.5 Severability of Invalid Provisions. If any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Agreement and such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, and this Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Water District and the City each hereby declares that it would have entered into this Agreement and each and every other Section, paragraph, sentence, clause or phrase hereof irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Agreement may be held illegal, invalid or unenforceable.

Section 10.6 Article and Section Headings and References. The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Agreement. All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Agreement; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or subdivision hereof; and words of the masculine gender shall mean and include words of the feminine and neuter genders.

Section 10.7 Execution of Counterparts. This Agreement may be executed in any number of counterparts, each of which shall for all purposes be deemed to be an original and all of which shall together constitute but one and the same instrument.

Section 10.8 Waiver of Personal Liability. No member of the Water District Board of Directors, or officer, agent or employee of the Water District shall be individually or personally liable for the payment of Lease Payments or be subject to any personal liability or accountability by reason of this Agreement; but nothing herein contained shall relieve any such member or person from the performance of any official duty provided by law or by this Agreement.

Section 10.9 Benefit of Agreement. Nothing in this Agreement, expressed or implied, is intended to give to any person other than the Water District and the City any right, remedy or claim under or by reason of this Agreement.

IN WITNESS WHEREOF, the Water District and the City have caused this Agreement to be executed in their respective names by their duly authorized officers, all as of the date first above written.

CITY OF VICTORVILLE, as Lessor

By: _____
Rudy Cabriales, Mayor

VICTORVILLE WATER DISTRICT, as Lessee

By: _____
Rudy Cabriales, Chairman

ATTEST

By: _____
Victorville City Clerk

By: _____
Water District Secretary

APPROVED AS TO FORM

By: _____
City Attorney

By: _____
Water District Legal Counsel

City of Victorville and
Victorville Water District Risk Manager
Chuck Buquet

INDENTURE OF TRUST

by and among the

VICTORVILLE JOINT POWERS FINANCING AUTHORITY

and

VICTORVILLE WATER DISTRICT

and

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

Dated as of May 1, 2009

Relating to:

\$ _____
Victorville Joint Powers Financing Authority
Taxable Wastewater Revenue Notes, 2009 Series
(Victorville Water District)

INDENTURE OF TRUST

THIS INDENTURE OF TRUST, is made and entered into as of May 1, 2009, by and among the **VICTORVILLE JOINT POWERS FINANCING AUTHORITY**, a joint exercise of powers agency organized and existing under the laws of the State of California (the "Authority"), the **VICTORVILLE WATER DISTRICT**, a county water district and a subsidiary district of the City of Victorville duly organized and existing under the laws of the State of California (the "Water District"), and **THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.**, a national banking association organized and existing under the laws of the United States of America, and being qualified to accept and administer the trusts hereby created (the "Trustee").

WITNESSETH:

WHEREAS, the City of Victorville (the "City") owns that certain wastewater collection system (the "Leased Property"); and

WHEREAS, pursuant to that certain Wastewater Enterprise Lease Agreement, dated as of April __, 2009, by and between the City and the Water District, the City has leased the Leased Property to the Water District, including all rights, liabilities, duties and responsibilities of the City regarding the operation and maintenance of the Leased Property as well as the power to enter into, administer and enforce all contracts or other agreements relating to the operation and maintenance of the Leased Property; and

WHEREAS, the Leased Property, as operated by the Water District, and together with any improvements thereto acquired, constructed or installed by the Water District, including, without limitation, the Improvements, constitutes the Wastewater Enterprise of the Water District; and

WHEREAS, under Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Bond Law") the Authority is authorized to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations of, or for the purpose of making loans to, public entities including the Water District, and to provide financing for public capital improvements of public entities including the Water District; and

WHEREAS, the Water District desires to finance the construction of a wastewater treatment plant as well as certain other improvements to the Wastewater Enterprise (the "Improvements"); and

WHEREAS, for the purpose of providing funds to finance the Improvements, the Authority has determined to issue its Victorville Joint Powers Financing Authority Taxable Wastewater Revenue Notes, 2009 Series (Victorville Water District) in the aggregate principal amount of \$ _____ (the "Notes"), all pursuant to and secured by this Indenture in the manner provided herein; and

WHEREAS, the Water District and the Authority have determined that it is necessary and desirable to enter into an Installment Sale Agreement, dated the date hereof, by and between the Water District and the Authority (the "Installment Sale Agreement"), pursuant to which the Authority will sell the Improvements to the Water District in consideration for Installment Payments equal in time and amount to the debt service on the Notes; and

WHEREAS, the Authority has determined that in order to provide for the authentication and delivery of the Notes, to establish and declare the terms and conditions upon which the Notes are to be

issued and secured and to secure the payment of the principal thereof and interest and premium (if any) thereon, the Authority has authorized the execution and delivery of this Indenture; and

WHEREAS, the Water District and the Authority have determined that all acts and proceedings required by law necessary to make the Notes, when executed by the Authority, authenticated and delivered by the Trustee and duly issued, the valid, binding and legal special obligations of the Authority, and to constitute this Indenture a valid and binding agreement for the uses and purposes herein set forth, in accordance with its terms, have been done and taken; and the execution and delivery of this Indenture have been in all respects duly authorized;

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that in order to secure the payment of the principal of and the interest and premium (if any) on the Notes issued and Outstanding under this Indenture, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Notes are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Notes by the owners thereof, and for other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Authority does hereby covenant and agree with the Trustee, for the benefit of the respective Owners from time to time of the Notes, as follows:

ARTICLE I

DEFINITIONS; AUTHORIZATION AND PURPOSE OF NOTES; EQUAL SECURITY

SECTION 1.1 Definitions. Unless the context otherwise requires, the terms defined in this Section shall for all purposes of this Indenture and of any Supplemental Indenture and of the Notes and of any certificate, opinion, request or other documents herein mentioned have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined. In addition, all capitalized terms used herein and not otherwise defined in this Section shall have the respective meanings given such terms in the Installment Sale Agreement.

"Acquisition and Construction Fund" means the fund by that name established and held by the Trustee pursuant to Section 3.5.

"Additional Payments" means the payments so designated and required to be paid by the Water District pursuant to Section 4.10 of the Installment Sale Agreement.

"Agency" means the Redevelopment Agency of the City of Victorville.

"Authority" means the Victorville Joint Powers Financing Authority, a joint exercise of powers agency duly organized and existing pursuant to a Joint Exercise of Powers Agreement, dated as of September 1, 1990, between the City and the Agency.

"Authorized Representative" means: (a) with respect to the Authority, its President, Vice President, Executive Director, Treasurer, Secretary or any other person designated as an Authorized Representative of the Authority by a Written Certificate of the Authority signed by its President, Vice President, Executive Director, Treasurer or Secretary and filed with the Water District and the Trustee; and (b) with respect to the Water District, its Chairman, Vice Chairman, Executive Director, Director of Water District, Treasurer or any other person designated as an Authorized Representative of the Water

District by a Written Certificate of the Water District signed by its Chairman, Vice Chairman, Executive Director, Director of Water District or Treasurer and filed with the Trustee.

"Bond Counsel" means (a) Fulbright & Jaworski L.L.P., or (b) any other attorney or firm of attorneys appointed by or acceptable to the Water District of nationally recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

"Bond Law" means the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State, as in existence on the Closing Date or as thereafter amended from time to time.

"Business Day" means a day (other than a Saturday or a Sunday) on which banks are not required or authorized to remain closed in the city in which the Office of the Trustee is located.

"Closing Date" means _____, 2009, being the date of delivery of the Notes. [To be completed upon pricing]

"Costs of Issuance" means all items of expense directly or indirectly relating to the authorization, issuance, sale and delivery of the Notes, including but not limited to printing expenses, filing and recording fees, fees, expenses and charges of the Water District, the Authority, the Trustee, and their respective counsel, including the Trustee's first annual administrative fee, costs of obtaining Permitted Investment for monies held in the funds and accounts created and held hereunder, fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Notes and any other cost, charge or fee in connection with the original issuance of the Notes and the execution and delivery of the Installment Sale Agreement.

"Costs of Issuance Fund" means the fund by that name established and held by the Trustee pursuant to Section 3.4.

"Depository" means DTC and its successors and assigns or if (a) the then Depository resigns from its functions as securities depository of the Notes, or (b) the Authority discontinues use of the Depository pursuant to Section 2.12 hereof, any other securities depository which agrees to follow the procedures requested to be followed by a securities depository in connection with the Notes and which is selected by the Authority with the consent of the Trustee.

"Depository Participant" means a member of, or participant in, the Depository.

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"Event of Default" means any of the events described in Section 8.1.

"Federal Securities" means:

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 of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, including instruments evidencing a direct ownership interest in securities described in this clause such as Stripped Treasury Coupons rated or assessed in the highest Rating

Category by S&P and Moody's and held by a custodian for safekeeping on behalf of holders of such securities; or

b. Notes or notes which are exempt from federal income taxes and for the payment of which cash or obligations described in clause (a) of this definition in an amount sufficient to pay the principal of, premium, if any, and interest on when due have been irrevocably deposited with a trustee or other fiscal depository and which are rated in the highest Rating Category by S&P and Moody's.

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

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

"Information Services" means Financial Information, Inc.'s "Daily Called Special Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Mergent/FIS, Inc., 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Municipal News Reports; and Kenny S&P, 55 Water Street, 45th Floor, New York, New York 10041, Attention: Notification Department; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other information services providing information with respect to called Notes as the Authority or the Water District may designate in a Written Request of the Authority or the Water District delivered to the Trustee.

"Installment Payments" means the payments required to be paid by the Water District pursuant to Section 4.4 of the Installment Sale Agreement, including all prepayments thereof.

"Installment Sale Agreement" means that certain Installment Sale Agreement by and between the Authority and the Water District, with respect to the sale of the Improvements, dated as of April 1, 2009, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of this Indenture.

"Interest Payment Date" means June 1 and December 1 in each year, beginning December 1, 2009, and continuing so long as any Notes remain Outstanding.

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Authority.

"Nominee" means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant hereto.

"Note Service Fund" means the fund by that name established and held by the Trustee pursuant to Section 4.2(a).

"Notes" means the Victorville Joint Powers Financing Authority Taxable Wastewater Revenue Notes, 2009 Series (Victorville Water District).

"Office" means the corporate trust office of the Trustee in Los Angeles, California, or at such other or additional offices as may be specified in writing to the Authority and the Water District.

"Outstanding", when used as of any particular time with reference to Notes, means all Notes theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except: (a) Notes theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Notes with respect to which all liability of the Authority shall have been discharged in accordance with Section 9.3; and (c) Notes for the transfer or exchange of or in lieu of or in substitution for which other Notes shall have been authenticated and delivered by the Trustee pursuant to this Indenture.

"Owner", when used with respect to any Note, means the person in whose name the ownership of such Note shall be registered on the Registration Books.

"Permitted Investments" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein (the Trustee is entitled to conclusively rely upon a Written Request of the Water District directing investments as a certification to the Trustee that such investments are legal investment), but only to the extent that the same are acquired at fair market value:

(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 of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, including instruments evidencing a direct ownership interest in securities described in this clause such as Stripped Treasury Coupons rated or assessed in the highest Rating Category by S&P and Moody's and held by a custodian for safekeeping on behalf of holders of such securities.

(b) Notes or notes which are exempt from federal income taxes and for the payment of which cash or obligations described in clause (a) of this definition in an amount sufficient to pay the principal of, premium, if any, and interest on when due have been irrevocably deposited with a trustee or other fiscal depository and which are rated in the highest Rating Category by S&P and Moody's.

(c) Obligations, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following: Federal Home Loan Bank System, Government National Mortgage Association, Farmer's Home Administration, Federal Home Loan Mortgage Corporation or Federal Housing Administration; provided that with respect to the funds and accounts established under this Indenture, such obligations shall at no time exceed an amount equal to ten percent (10%) of the aggregate principal amount of the Notes Outstanding.

(d) Deposit accounts, certificates of deposit or savings accounts (i) fully insured by the Federal Deposit Insurance Corporation or (ii) with banks whose short term obligations are rated no lower than "A-1" by S&P and "P-1" by Moody's including those of the Trustee and its affiliates.

(e) Federal funds or banker's acceptances with a maximum term of one year of any bank that has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" by Moody's and "A-1" or "A" or better by S&P (including the Trustee).

(f) Repurchase obligations with a term not exceeding 30 days pursuant to a written agreement between the Trustee and either a primary dealer on the Federal Reserve reporting dealer list which falls under the jurisdiction of the SIPC or a federally chartered commercial bank whose long-term debt obligations are rated "A" or better by S&P and Moody's, with respect to any security described in

clause (1); provided that the securities which are the subject of such repurchase obligation (i) must be free and clear of all liens, (ii) in the case of a SIPC dealer, were not acquired pursuant to a repurchase or reverse repurchase agreement, (iii) must be deposited with the Trustee and maintained through weekly market valuations in an amount equal to 104% of the invested funds plus accrued interest; and further provided that the Trustee must have a valid first perfected security interest in such securities.

(g) Taxable government money market portfolios that have a rating by S&P of "Am-G" or "Am" or better and rated in one of the three highest rating categories of Moody's consisting of securities issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States, subject to a maximum permissible limit equal to six months of principal and interest on the Notes including portfolios of the Trustee and its affiliates.

(h) Tax-exempt government money market portfolios that have a rating by S&P of "Am-G" or "Am" or better and rated in one of the three highest rating categories of Moody's consisting of securities which are rated in the highest Rating Categories of S&P and Moody's subject to a maximum permissible limit equal to six months of principal and interest on the Notes.

(i) Money market funds registered under the Investment Company Act of 1940, the shares in which are registered under the Securities Act of 1933 and that have a rating by S&P of "AAAm-G" or "AAAm" and rated in one of the two highest Rating Categories of Moody's, including those managed or advised by the Trustee or its affiliates.

(j) The Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

(k) Investment agreements, including guaranteed investment contracts ("GICs") forward purchase agreements and reserve fund put agreements with banks or other financial institutions rated, or guaranteed by institutions rated, or with senior unsecured debt rated, by S&P and Moody's, in one of the two highest rating categories assigned by such agencies.

"Record Date" means, with respect to any Interest Payment Date, the fifteenth (15th) calendar day of the month preceding such Interest Payment Date.

"Redemption Fund" means the fund by that name established and held by the Trustee pursuant to Section 4.2(b).

"Registration Books" means the books maintained by the Trustee pursuant to Section 2.7 for the registration and transfer of ownership of the Notes.

"Responsible Officer" means any Vice President, Assistant Vice President or Trust Officer or any other officer of the Trustee having regular responsibility for corporate trust matters related to this Indenture.

"Revenue Fund" means the fund by that name established and held by the Trustee pursuant to Section 4.2.

"Revenues" means (a) all amounts received by the Authority or the Trustee pursuant or with respect to the Installment Sale Agreement, including, without limiting the generality of the foregoing, all of the Installment Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), prepayments, insurance proceeds, condemnation proceeds, but excluding

any Additional Payments; (b) all moneys and amounts held in the funds and accounts established hereunder; and (c) investment income with respect to any moneys held by the Trustee hereunder.

“S&P” means Standard & Poor's, a division of McGraw-Hill, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Authority.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, N.Y. 10041-0099 Attn. Call Notification Department, Fax (212) 855-7232; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a Written Request of the Authority delivered to the Trustee.

“State” means the State of California.

“Supplemental Indenture” means any indenture, agreement, resolution or other instrument hereafter duly adopted or executed in accordance with the provisions of Section 7.1 of this Indenture.

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

“Trustee” means The Bank of New York Mellon Trust Company, N.A., appointed by the Authority to act as trustee hereunder pursuant to Section 6.1, and its assigns or any other corporation or association which may at any time be substituted in its place, as provided in Section 6.1.

“Water District” means the Victorville Water District, a county water district and a subsidiary district of the City of Victorville duly organized and existing pursuant to the laws of the State of California.

“Written Certificate”, “Written Request” and “Written Requisition” of the Authority or the Water District mean, respectively, a written certificate, request or requisition signed in the name of the Authority or the Water District by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

SECTION 1.2 Rules of Construction. All references in this Indenture to “Articles,” “Sections,” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; and the words “herein,” “hereof,” “hereunder,” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

SECTION 1.3 Equal Security. In consideration of the acceptance of the Notes by the Owners thereof, this Indenture shall be deemed to be and shall constitute a contract among the Authority, the Water District, the Trustee and the Owners from time to time of the Notes; and the covenants and agreements herein set forth to be performed on behalf of the Authority shall be for the equal and proportionate benefit, security and protection of all Owners of the Notes without preference, priority or distinction as to security or otherwise of any of the Notes over any of the others by reason of the number

or date thereof or the time of sale, execution or delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein or herein.

ARTICLE II

AUTHORIZATION AND ISSUANCE OF NOTES

SECTION 2.1 Authorization of Notes. The Authority has reviewed all proceedings heretofore taken relative to the authorization of the Notes and has found, as a result of such review, and hereby finds and determines that, as of the date of issuance of the Notes, all things, conditions, and acts required by law to exist, happen and be performed precedent to and in the issuance of the Notes do exist, have happened and have been performed in due time, form and manner as required by law, and the Authority is now authorized, pursuant to the Bond Law and each and every requirement of law, to issue the Notes in the manner and form provided in this Indenture. Accordingly, the Authority hereby authorizes the issuance of the Notes pursuant to the Bond Law and this Indenture.

SECTION 2.2 Terms of Notes. The Notes authorized to be issued by the Authority under and subject to the Bond Law and the terms of this Indenture shall be designated the "Victorville Joint Powers Financing Authority Taxable Wastewater Revenue Notes, 2009 Series (Victorville Water District)" and shall be issued in the original principal amount of _____ Dollars (\$ _____). [To be completed upon pricing].

The Notes shall be issued in fully registered form without coupons in denominations of \$100,000 or any integral multiple thereof. The Notes shall be dated the Closing Date, shall mature on _____, 2014 and bear interest at a rate of ____%. [To be completed upon pricing].

Interest on the Notes shall be payable semiannually calculated based on a 360-day year of twelve (12) thirty-day months on each Interest Payment Date to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check of the Trustee mailed on the Interest Payment Date by first class mail to the Owner at the address of such Owner as it appears on the Registration Books; provided however, that payment of interest will be made by wire transfer in immediately available funds to an account at a financial institution in the United States of America to any Owner of Notes in the aggregate principal amount of \$1,000,000 or more who shall furnish written wire instructions to the Trustee before the applicable Record Date. Any such written request shall remain in effect until rescinded in writing by the Owner. Principal of any Note and any premium upon redemption shall be paid by check of the Trustee upon presentation and surrender thereof at the Office of the Trustee. Principal of and interest and premium (if any) on the Notes shall be payable in lawful money of the United States of America.

Each Note shall bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (b) unless it is authenticated on or before the first Record Date, in which event it shall bear interest from the Closing Date; provided, however, that if, as of the date of authentication of any Note, interest thereon is in default, such Note shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

SECTION 2.3 Redemption of Notes.

(a) Special Mandatory Redemption. The Notes shall be subject to special mandatory redemption as a whole or in part, on a pro rata basis among Owners, on any date, to the extent of the proceeds of an eminent domain award or proceeds of casualty insurance not used to repair or rebuild the Wastewater Enterprise, which proceeds may be used for such purpose pursuant to Sections 5.4 or 5.6 of the Installment Sale Agreement, at a redemption price equal to the principal amount of the Notes to be redeemed plus interest accrued thereon to the date fixed for redemption, without premium.

(b) Optional Redemption from Prepayments of Installment Payments. The Notes shall be subject to redemption, as a whole or in part, on a pro rata basis among Owners, prior to maturity on any date on or after ____ 1, 20__, from prepayment of Installment Payments made at the option of the Water District at the redemption price equal to the principal amount of the Notes to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

(c) Notice of Redemption. The Trustee on behalf and at the expense of the Authority shall mail (by first-class mail, postage prepaid) notice of any redemption to: (i) the respective Owners of any Notes designated for redemption, at least thirty (30) but not more than sixty (60) days prior to the redemption date, at their respective addresses appearing on the Registration Books, and (ii) the Securities Depositories and to one or more Information Services, at least thirty (30) but not more than sixty (60) days prior to the redemption; provided, however, that neither failure to receive any such notice so mailed nor any defect therein shall affect the validity of the proceedings for the redemption of such Notes or the cessation of the accrual of interest thereon. In addition to mailed notice, the notice to the Securities Depositories and Information Service shall be given by telephonically confirmed facsimile transmission or overnight delivery service or by such other means approved by such institutions. Such notice shall state the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the series, CUSIP numbers, the Note numbers and the maturity or maturities (in the event of redemption of all of the Notes of such maturity or maturities in whole) of the Notes to be redeemed, and shall require that such Notes be then surrendered at the Office of the Trustee for redemption at the redemption price, giving notice also that further interest on such Notes will not accrue from and after the redemption date.

(d) Partial Redemption of Notes. In the event only a portion of any Note is called for redemption, then upon surrender of such Note the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Note or Notes of the same series and maturity date, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Note to be redeemed.

(e) Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the principal of and interest (and premium, if any) on the Notes so called for redemption shall have been duly provided, such Notes so called shall cease to be entitled to any benefit under this Indenture other than the right to receive payment of the redemption price, and no interest shall accrue thereon from and after the redemption date specified in such notice. All Notes redeemed pursuant to this Section shall be canceled and shall be destroyed by the Trustee.

SECTION 2.4 Form of Notes. The Notes, the form of Trustee's certificate of authentication, and the form of assignment to appear thereon, shall be substantially in the forms set forth in Exhibit A attached hereto and by this reference incorporated herein, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Indenture.

SECTION 2.5 Execution of Notes. The Notes shall be signed in the name and on behalf of the Authority with the manual or facsimile signature of its President and attested by the manual or facsimile signature of its Secretary. The Notes shall then be delivered to the Trustee for authentication by it. In case any officer who shall have signed any of the Notes shall cease to be such officer before the Notes so signed shall have been authenticated or delivered by the Trustee or issued by the Authority, such Notes may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Authority as though the individual who signed the same had continued to be such officer of the Authority. Also, any Note may be signed on behalf of the Authority by any individual who on the actual date of the execution of such Note shall be the proper officer although on the nominal date of such Note such individual shall not have been such officer.

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

SECTION 2.6 Transfer and Exchange of Notes.

(a) **Transfer of Notes.** The registration of any Note may, in accordance with its terms, be transferred upon the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Note for cancellation at the Office of the Trustee, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever any Note or Notes shall be surrendered for registration of transfer, the Trustee shall execute and deliver a new Note or Notes of the same series, maturity, interest rate and aggregate principal amount, in any authorized denominations. The Authority shall pay all costs of the Trustee incurred in connection with any such transfer, except that the Trustee may require the payment by the Note Owner of any tax or other governmental charge required to be paid with respect to such transfer. Provided, however, that no transfer of Notes shall be made by the Trustee unless the Trustee has received from the transferee, and delivered to the Authority, an investor's letter substantially in the form of Appendix C hereto.

(b) **Exchange of Notes.** Notes may be exchanged at the Office of the Trustee, for a like aggregate principal amount of Notes of other authorized denominations of the same series, interest rate and maturity. The Authority shall pay all costs of the Trustee incurred in connection with any such exchange, except that the Trustee may require the payment by the Note Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

(c) **Limitations on Transfer or Exchange.** The Trustee may refuse to transfer or exchange either (i) any Note during the period established by the Trustee for the selection of Notes for redemption pursuant to Section 2.3, or (ii) the portion of any Note which the Trustee has selected for redemption pursuant to the provisions of Section 2.3.

SECTION 2.7 Registration Books. The Trustee will keep or cause to be kept, at its Office, sufficient records for the registration and transfer of the Notes, which shall at all times during normal business hours, and upon reasonable notice, be open to inspection by the Water District and the Authority; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on the Registration Books, Notes as hereinbefore provided.

SECTION 2.8 Issuance in Temporary Form. The Notes may be issued initially in temporary form exchangeable for definitive Notes when ready for delivery. The temporary Notes may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Authority and may contain such reference to any of the provisions of this Indenture as may be appropriate. Every temporary Note shall be executed by the Authority and be registered and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Notes. If the Authority issues temporary Notes, it will execute and furnish definitive Notes without delay, and thereupon the temporary Notes may be surrendered, for cancellation, in exchange therefor at the Office of the Trustee, and the Trustee shall authenticate and deliver in exchange for such temporary Notes an equal aggregate principal amount of definitive Notes of authorized denominations. Until so exchanged, the temporary Notes shall be entitled to the same benefits under this Indenture as definitive Notes authenticated and delivered hereunder.

SECTION 2.9 Notes Mutilated, Lost, Destroyed or Stolen. If any Note shall become mutilated, the Authority, at the expense of the Owner of said Note, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Note of like series, tenor and authorized denomination in exchange and substitution for the Note so mutilated, but only upon surrender to the Trustee of the Note so mutilated. Every mutilated Note so surrendered to the Trustee shall be canceled by it and delivered to, or upon the order of, the Authority. If any Note issued hereunder shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity for the Authority and the Trustee satisfactory to the Trustee shall be given, the Authority, at the expense of the Note Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Note of like series and tenor in lieu of and in substitution for the Note so lost, destroyed or stolen (or if any such Note shall have matured or shall have been called for redemption, instead of issuing a substitute Note the Trustee may pay the same without surrender thereof upon receipt of indemnity for the Authority and the Trustee satisfactory to the Trustee). The Authority may require payment of a reasonable fee for each new Note issued under this Section and of the expenses which may be incurred by the Authority and the Trustee. Any Note issued under the provisions of this Section in lieu of any Note alleged to be lost, destroyed or stolen shall constitute an original contractual obligation on the part of the Authority whether or not the Note alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Indenture with all other Notes secured by this Indenture.

SECTION 2.10 Book-Entry System; Limited Obligation. The Notes shall be initially executed, authenticated and delivered in the form of a separate single fully registered Note (which may be typewritten) for each of the maturities of the Notes. Upon initial execution, authentication and delivery, the ownership of each such global Note shall be registered in the Note Register in the name of the Nominee as nominee of the Depository. Except as provided in Section 2.12 hereof, all of the Outstanding Notes shall be registered in the Note Register kept by the Trustee in the name of the Nominee and the Notes may be transferred, in whole but not in part, only to the Depository, to a successor Depository or to another nominee of the Depository or of a successor Depository. Each global Note shall bear a legend substantially to the following effect: "UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AS DEFINED IN THE INDENTURE OF TRUST) TO THE TRUSTEE FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN."

With respect to Notes registered in the Note Register in the name of the Nominee, the Authority and the Trustee shall have no responsibility or obligation to any Depository Participant or to any person on behalf of which such a Depository Participant holds a beneficial interest in the Notes. Without limiting the immediately preceding sentence, the Authority and the Trustee shall have no responsibility or obligation with respect to (a) the accuracy of the records of the Depository, the Nominee or any Depository Participant with respect to any beneficial ownership interest in the Notes, (b) the delivery to any Depository Participant, beneficial owner or any other person, other than the Depository, of any notice with respect to the Notes, including any Redemption Notice, (c) the selection by the Depository and the Depository Participants of the beneficial interests in the Notes to be redeemed in part, or (d) the payment to any Depository Participant, beneficial owner or any other person, other than the Depository, of any amount with respect to principal of, interest on, or premium, if any, of the Notes. The Authority and the Trustee may treat and consider the person in whose name each Note is registered in the Note Register as the holder and absolute Owner of such Note for the purpose of payment of principal of, premium, if any, and interest on the Note, for the purpose of giving Redemption Notices with respect to the Notes and other notices with respect to the Notes, and for all other purposes whatsoever, including, without limitation, registering transfers with respect to the Notes.

The Trustee shall pay all principal of, premium, if any, and interest on the Notes only to or upon the order of the respective Note Owners, as shown in the Note Register kept by the Trustee, or their respective attorneys duly authorized in writing, and all such payments shall be valid hereunder with respect to payment of principal of, premium, if any, and interest on, the Notes to the extent of the sum or sums so paid. No person other than a Note Owner, as shown in the Note Register, shall receive a Note evidencing the obligation to make payments of principal of, premium, if any, and interest on such Note pursuant to this Indenture of Trust. Upon delivery by the Depository to the Trustee and the Authority of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions herein with respect to Record Dates, the word Nominee in this Indenture of Trust shall refer to such new nominee of the Depository.

SECTION 2.11 Representation Letter. In order to qualify the Notes for the Depository's book-entry system, the Authorized Representative is hereby authorized to execute, countersign and deliver on behalf of the Authority to such Depository a letter from the Authority representing such matters as shall be necessary to so qualify the Notes (the "Representation Letter"). The execution and delivery of the Representation Letter shall not in any way limit the provisions of Section 2.10 hereof or in any other way impose upon the Authority or the Water District any obligation whatsoever with respect to persons having beneficial interests in the Notes other than the Owners, as shown in the Note Register kept by the Trustee. In the written acceptance by the Trustee of the Representation Letter, the Trustee shall agree, and hereby agrees, to take all actions necessary for all representations of the Trustee in the Representation Letter with respect to the Trustee to at all times be complied with. In addition to the execution and delivery of the Representation Letter, the Authority Representative and all other officers of the Authority, and their respective deputies and designees, each is hereby authorized to take any other actions, not inconsistent with this Indenture of Trust, to qualify the Notes for the Depository's book-entry program.

SECTION 2.12 Transfers Outside Book-Entry System. If at any time the Depository notifies the Authority that it is unwilling or unable to continue as Depository with respect to the Notes or if at any time the Depository shall no longer be registered or in good standing under the Securities Exchange Act or other applicable statute or regulation and a successor Depository is not appointed by the Authority within 90 days after the Authority receives notice or becomes aware of such condition, as the case may be, Section 2.10 hereof shall no longer be applicable and the Authority shall execute and the Trustee shall authenticate and deliver bonds representing the Notes as provided below. In addition, the Authority may determine at any time that the Notes shall no longer be represented by global bonds and that the provisions of Section 2.10 hereof shall no longer apply to the Notes. In any such event the

Authority shall execute and the Trustee shall authenticate and deliver bonds representing the Notes as provided below. Notes executed, authenticated and delivered in exchange for global bonds pursuant to this Section shall be registered in such names and delivered in such Authorized Denominations as the Depository, pursuant to instructions from the Depository Participants or otherwise, shall instruct the Authority and the Trustee. The Trustee shall deliver such Notes representing the Notes to the persons in whose names such Notes are so registered.

If the Authority determines to replace the Depository with another qualified securities depository, the Authority shall prepare or cause to be prepared a new fully-registered global Note for each of the maturities of the Notes, registered in the name of such successor or substitute securities depository or its nominee, or make such other arrangements as are acceptable to the Authority, the Trustee and such securities depository and not inconsistent with the terms of this Indenture of Trust.

SECTION 2.13 Payments and Notices to the Nominee. Notwithstanding any other provision of this Indenture of Trust to the contrary, so long as any Note is registered in the name of the Nominee, all payments of principal of, premium, if any, and interest on such Note and all notices with respect to such Note shall be made and given, respectively, as provided in the Representation Letter or as otherwise instructed by the Depository.

SECTION 2.14 Initial Depository and Nominee. The initial Depository under this Indenture of Trust shall be DTC. The initial Nominee shall be Cede & Co., as nominee of DTC.

ARTICLE III

ISSUANCE OF NOTES AND APPLICATION OF PROCEEDS

SECTION 3.1 Issuance of Notes. Upon the execution and delivery of this Indenture, the Authority shall execute and deliver Notes in the aggregate principal amount of _____ Dollars (\$ _____) and shall deliver the Notes to the Trustee for authentication upon the Written Request of the Authority.

SECTION 3.2 Application of Proceeds and Other Moneys. Upon the receipt of payment for the Notes on the Closing Date, the Trustee shall deposit the full amount thereof as follows:

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

(b) The Trustee shall transfer to the Acquisition and Construction Fund the amount of \$ _____.

(c) The Trustee shall transfer to the Note Service Fund the amount of \$ _____, which amount shall be used pay interest on the Notes.

The Trustee may, in its discretion, establish a temporary fund or account in its books and records to facilitate such transfers.

SECTION 3.3 Reserved.

SECTION 3.4 Costs of Issuance Fund. The Trustee shall establish, maintain and hold in trust a separate fund to be known as the "Costs of Issuance Fund." The Trustee shall disburse moneys in the Costs of Issuance Fund from time to time to pay Costs of Issuance (or to reimburse the Authority for

payment of Costs of Issuance) upon receipt by the Trustee of a Written Request of the Authority, substantially in the form of the first such request delivered by the Authority to the Trustee on the Closing Date, which: (a) states with respect to each disbursement to be made (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment will be made, (iii) the amount to be disbursed, (iv) that each obligation mentioned therein is a proper charge against the Costs of Issuance Fund, and has not previously been disbursed by the Trustee from amounts in the Costs of Issuance Fund, and (v) that the amount of such disbursement is for payment of Costs of Issuance incurred and payable by the Authority; (b) specifies in reasonable detail the nature of the obligation; and (c) is accompanied by a bill or statement of account (if any) for each obligation. Upon the earlier of 180 days from the Closing Date, or the filing with the Trustee of a Written Certificate of the Authority stating that all Costs of Issuance have been paid, the Trustee shall withdraw all amounts then on deposit in the Costs of Issuance Fund and transfer such amounts to the Note Service Fund.

SECTION 3.5 Acquisition and Construction Fund. The Trustee shall establish, maintain and hold in trust a separate fund to be known as the "Acquisition and Construction Fund." Before any payment from the Acquisition and Construction Fund shall be made, the Water District shall file or cause to be filed with the Trustee, a Requisition of the Water District which shall be substantially in the form attached hereto as Exhibit B. The Trustee shall be entitled to rely on the representations of the Water District contained in such Requisition and shall not be required to independently verify the contents of such Requisition.

Within five (5) Business Days following receipt of each such Requisition, the Trustee shall pay the amount set forth in such Requisition as directed by the terms thereof out of the Acquisition and Construction Fund. Upon the Request of the Water District accompanied by a Certificate of the Water District stating that all Acquisition and Construction Costs have been paid or provision made for their payment, any unexpended moneys in the Acquisition and Construction Fund may be used to pay the costs associated with any other improvements to the Wastewater Enterprise. Any unexpended moneys in the Acquisition and Construction Fund subsequent to the payment of all Acquisition and Construction Costs which are not used to pay the cost of other improvements to the Wastewater Enterprise shall be transferred to the Note Service Fund upon receipt by the Trustee of a Request of the Water District accompanied by a Certificate of the Water District stating that all Acquisition and Construction Costs have been paid or provision made for their payment.

SECTION 3.6 Validity of Notes. The validity of the authorization and issuance of the Notes shall not be affected in any way by any proceedings taken by the Authority or the Trustee with respect to or in connection with the Installment Sale Agreement and the recital contained in the Notes that the same are issued pursuant to the Bond Law shall be conclusive evidence of their validity and of the regularity of their issuance.

ARTICLE IV

REVENUES; FLOW OF FUNDS

SECTION 4.1 Assignment of Revenues. The Authority hereby assigns to the Trustee, on behalf of the Owners, all of the Authority's right, title and interest to and in the Revenues. This assignment is an assignment of all of the Authority's right, title and interest in and to the Revenues, and such right, title and interest, and the Revenues constitute property of the Trustee on behalf of the Owners of the Notes. Subject to Section 4.3, all Revenues the Trustee collects and receives shall be applied to the payment of principal of and interest and premium (if any) on the Notes equally, without priority for series, issue, number or date, in accordance with the terms hereof. So long as any of the Notes are

Outstanding, the Revenues and such moneys shall not be used for any other purpose; except that a portion of the Revenues may be used for purposes as expressly permitted by Section 4.2 hereof.

The assignment under this section to the Trustee is solely in the Trustee's capacity as Trustee under this Indenture and the duties, powers and liabilities of the Trustee in acting pursuant to such assignment shall be subject to the provisions of this Indenture, including, without limitation, the provisions of Article VI hereof. The Trustee shall not be responsible for any representations, warranties, covenants or obligations of the Authority.

SECTION 4.2 Receipt, Deposit and Application of Revenues. Except as provided in Section 4.3 hereof with regard to the deposit of earnings on investments, all of the Revenues shall be deposited by the Trustee immediately upon receipt in the Revenue Fund (which the Trustee shall establish and hold in trust hereunder). Amounts in the Revenue Fund shall be applied solely for the uses and purposes set forth herein. The Trustee shall withdraw amounts on deposit in the Revenue Fund and apply such amounts at the times and for the purposes, and in the priority, as follows:

(a) **Note Service Fund.** On or before the fifteenth (15th) calendar day of the month preceding each Interest Payment Date, so long as any Notes remain Outstanding hereunder, the Trustee shall withdraw from the Revenue Fund and deposit into the Note Service Fund (which the Trustee shall establish and hold in trust hereunder) an amount which is at least equal to the aggregate amount of principal of and interest coming due and payable on the Notes on such Interest Payment Date. Notwithstanding the foregoing sentence, in the event that insufficient funds are on hand in the Revenue Fund to make the transfer described in the sentence above, then such transfer shall be made in an amount equal to the total amount on deposit in the Revenue Fund and amounts on deposit in the Note Service Fund shall be used to make up any shortfall. So long as sufficient amounts are on deposit in the Note Service Fund to make up such shortfall, failure to transfer an amount which is at least equal to the aggregate amount of principal of and interest coming due and payable on the Notes on or before the fifteenth (15th) calendar day of the month preceding any Interest Payment Date shall not constitute an Event of Default hereunder or under the Installment Sale Agreement.

Amounts in the Note Service Fund shall be applied by the Trustee solely for the purpose of paying the principal of and interest on the Outstanding Notes when and as such principal and interest becomes due and payable (including accrued interest on any Notes purchased or redeemed pursuant hereto).

If after all of the Notes have been paid or deemed to have been paid, there are moneys remaining in the Note Service Fund, such moneys shall be transferred by the Trustee to the Water District, after the payment of any outstanding fees and expenses of the Trustee.

(b) **Redemption Fund.** The Trustee shall deposit into the Redemption Fund all amounts required to redeem any Notes which are subject to redemption pursuant to Sections 2.3(a) or (b) when and as such amounts become available. Amounts in the Redemption Fund shall be applied by the Trustee solely for the purpose of paying the redemption price of Notes to be redeemed pursuant to Sections 2.3(a) or (b). Following any such redemption of all of the Notes, any moneys remaining in the Redemption Fund shall be transferred by the Trustee to the Water District.

SECTION 4.3 Investments. All moneys in any of the funds or accounts established with the Trustee pursuant to this Indenture shall be invested by the Trustee solely in Permitted Investments, as directed pursuant to the Written Request of the Water District filed with the Trustee at least two (2) Business Days in advance of the making of such investments. In the absence of any such directions from the Water District, the Trustee shall invest any such moneys in Permitted Investments described in

paragraph (i) of the definition thereof. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. All interest or gain derived from the investment of amounts in any of the funds or accounts established hereunder shall be deposited in the fund or account from which such investment was made. For purposes of acquiring any investments hereunder, the Trustee may commingle funds held by it hereunder. The Trustee may act as sponsor, principal or agent in the acquisition or disposition of any investment. The Trustee shall incur no liability for losses arising from any investments made pursuant to this Section.

The Trustee may sell, or present for prepayment, any Permitted Investment so purchased by the Trustee whenever it shall be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited, and the Trustee shall not be liable or responsible for any loss resulting from any such Permitted Investment.

The Authority (and the Water District by its execution of the Installment Sale Agreement) acknowledge that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority or the Water District the right to receive brokerage confirmations of security transactions as they occur, the Authority and the Water District specifically waive receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Authority and the Water District periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

SECTION 4.4 Acquisition, Disposition and Valuation of Investments.

(a) All investments of amounts deposited in any fund or account created by or pursuant to this Indenture, or otherwise containing gross proceeds of the Notes, shall be acquired and disposed of at fair market value, provided the Trustee is not responsible to determine fair market value.

Notwithstanding anything to the contrary herein, in making any valuations of investments hereunder, the Trustee may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system and rely thereon.

ARTICLE V

COVENANTS OF THE AUTHORITY; SPECIAL TAX COVENANTS

SECTION 5.1 Punctual Payment; Compliance With Documents. The Authority shall punctually pay or cause to be paid the interest and principal to become due with respect to all of the Notes in strict conformity with the terms of the Notes and of this Indenture, and will faithfully observe and perform all of the conditions, covenants and requirements of this Indenture and all Supplemental Indentures.

SECTION 5.2 Extension of Payment of Notes. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Notes or the time of payment of any claims for interest by the purchase of such Notes or by any other arrangement, and in case the maturity of any of the Notes or the time of payment of any such claims for interest shall be extended, such Notes or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of this Indenture, except subject to the prior payment in full of the principal of all of the Notes then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this Section shall be deemed to limit the right of the Authority to issue Notes for the purpose of refunding any Outstanding Notes, and such issuance shall not be deemed to constitute an extension of maturity of the Notes.

SECTION 5.3 Against Encumbrances. The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under this Indenture while any of the Notes are Outstanding, except the pledge and assignment created by this Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes.

SECTION 5.4 Power to Issue Notes and Make Pledge and Assignment. The Authority is duly authorized pursuant to law to issue the Notes and to enter into this Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned, respectively, under this Indenture in the manner and to the extent provided in this Indenture. The Notes and the provisions of this Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee shall at all times, subject to the provisions of Article VI and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Note Owners under this Indenture against all claims and demands of all persons whomsoever.

SECTION 5.5 Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of Notes, the Revenues, the Installment Sale Agreement, and all funds and accounts held by the Trustee under this Indenture. Such books of record and account shall be available for inspection by the Authority and the Water District, during business hours and under reasonable circumstances.

SECTION 5.6 No Additional Obligations. The Authority covenants that no additional bonds, notes or other indebtedness shall be issued or incurred which are payable out of the Revenues in whole or in part.

SECTION 5.7 Reserved.

SECTION 5.8 Installment Sale Agreement. The Trustee shall promptly collect all amounts due from the Water District pursuant to the Installment Sale Agreement. Subject to the provisions of Article VI, the Trustee shall enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights thereunder as assignee of the Authority and for the enforcement of all of the obligations of the Water District under the Installment Sale Agreement.

SECTION 5.9 Waiver of Laws. The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in this Indenture or in the Notes, and all benefit or advantage of any such law or laws is hereby expressly waived by the Authority to the extent permitted by law.

SECTION 5.10 Further Assurances. The Authority will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture, and for the better assuring and confirming unto the Trustee and Owners of the Notes the rights and benefits provided in this Indenture.

ARTICLE VI

THE TRUSTEE

SECTION 6.1 Appointment of Trustee. The Bank of New York Mellon Trust Company, N.A. in Los Angeles, California, a national banking association organized and existing under and by virtue of the laws of the United States of America, is hereby appointed Trustee by the Authority for the purpose of receiving all moneys required to be deposited with the Trustee hereunder and to allocate, use and apply the same as provided in this Indenture. The Authority agrees that it will maintain a Trustee having a combined capital and surplus of at least Fifty Million Dollars (\$50,000,000), and subject to supervision or examination by federal or State authority, so long as any Notes are Outstanding. If such bank or trust company publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this Section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

SECTION 6.2 Payment of Notes; Registration Books. The Trustee is hereby authorized to pay the Notes when duly presented for payment at maturity, or on redemption or purchase prior to maturity, and to cancel all Notes upon payment thereof. The Trustee shall keep accurate records of all funds administered by it and of all Notes paid and discharged. The Trustee will keep or cause to be kept at its Office sufficient books for the registration and transfer of the Notes, which shall at all times during regular business hours be open to inspection by the Water District and the Authority. Upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, as provided in this Indenture with respect to the Notes.

SECTION 6.3 Acceptance of Trusts. The Trustee hereby accepts the trusts imposed upon it by this Indenture, and agrees to perform said trusts, but only upon and subject to the following express terms and conditions:

(a) The Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default hereunder has occurred (which has not been cured or waived) the Trustee may exercise such of the rights and powers vested in it by this Indenture, and shall use the same degree of care and skill in their exercise, as a prudent trustee would exercise or use under the circumstances.

(b) The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents, or receivers, and shall have no liability for the actions of any such attorney, agent or receiver chosen with reasonable care, and the Trustee shall be entitled to advice of counsel concerning all matters of trust and its duty hereunder. The Trustee shall not be liable for any action taken or not taken in reliance upon advice or opinion of such counsel.

(c) The Trustee shall not be responsible for any recital herein, or in the Notes, or for any of the supplements thereto or instruments of further assurance, or for the sufficiency of the security for the Notes issued hereunder or intended to be secured hereby and the Trustee shall not be bound to ascertain or inquire as to the observance or performance of any covenants, conditions or agreements on the part of the Authority hereunder. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with Section 4.3 of this Indenture.

(d) The Trustee shall not be accountable for the use of any proceeds of sale of the Notes delivered hereunder. The Trustee may become the Owner of Notes secured hereby with the same

rights which it would have if not the Trustee; may acquire and dispose of other bonds or evidence of indebtedness of the Authority with the same rights it would have if it were not the Trustee; and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners of Notes, whether or not such committee shall represent the Owners of the majority in principal amount of the Notes then Outstanding.

(e) In the absence of bad faith on its part, the Trustee shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram, requisition, facsimile transmission, electronic mail or other paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons. Any action taken or omitted to be taken by the Trustee in good faith and without negligence pursuant to this Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the Owner of any Note, shall be conclusive and binding upon all future Owners of the same Note and upon Notes issued in exchange therefor or in place thereof. The Trustee shall not be bound to recognize any person as an Owner of any Note or to take any action at his request unless the ownership of such Note by such person shall be reflected on the Registration Books.

(f) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to rely upon a Written Certificate of the Water District or a Written Certificate of the Authority as sufficient evidence of the facts therein contained and prior to the occurrence of an Event of Default hereunder of which the Trustee has been given notice or is deemed to have notice, as provided in Section 6.3(h) hereof, shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed by it to be necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a Written Certificate of the Authority to the effect that an authorization in the form therein set forth has been adopted by the Authority, as conclusive evidence that such authorization has been duly adopted and is in full force and effect.

(g) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty and it shall not be answerable for other than its negligence or willful misconduct. The immunities and exceptions from liability of the Trustee shall extend to its officers, directors, employees and agents.

(h) The Trustee shall not be required to take notice or be deemed to have notice of any Event of Default hereunder or under the Installment Sale Agreement, except failure by the Water District to make any of the payments to the Trustee required to be made by the Water District pursuant to the Installment Sale Agreement, or failure by the Authority to file with the Trustee any document required by this Indenture to be so filed subsequent to the issuance of the Notes, unless a Responsible Officer the Trustee shall be specifically notified in writing of such default by the Owners of at least twenty-five percent (25%) in aggregate principal amount of the Notes then Outstanding and all notices or other instruments required by this Indenture or under the Installment Sale Agreement to be delivered to the Trustee must, in order to be effective, be delivered at the Office of the Trustee, and in the absence of such notice so delivered the Trustee may conclusively assume there is no Event of Default hereunder or thereunder except as aforesaid.

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

(j) The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(k) Notwithstanding anything elsewhere in this Indenture with respect to the execution of any Notes, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of this Indenture, the Trustee shall have the right, but shall not be required, to demand any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, as may be deemed desirable for the purpose of establishing the right of the Authority to the execution of any Notes, or the right of the Water District or the Authority to the withdrawal of any cash, or the taking of any other action by the Trustee.

(l) Before taking the action referred to in Section 8.3 the Trustee may require that a satisfactory indemnity bond be furnished for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful default in connection with any such action.

(m) All moneys received by the Trustee shall, until used or applied or invested as herein provided, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required by law. The Trustee shall not be under any liability for interest on any moneys received hereunder except such as may be agreed upon.

(n) No provision in this Indenture shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder. The Trustee shall provide the Authority and the Water District with seven days' notice prior to making any advance of its own funds hereunder, and, if the Water District or the Authority does not provide moneys in the amount needed, the Trustee shall be entitled to interest on the amounts advanced at a rate equal to the then 3-month certificates of deposit rate (by reference to the Wall Street Journal); provided that no such prior notice need be given and such interest on amounts advanced shall accrue from the date of any such advance following the occurrence of an Event of Default hereunder.

(o) The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Notes.

(p) The Trustee shall not be liable for any action taken or not taken by it in accordance with the direction of Owners of a majority (or other percentage provided for herein) in aggregate principal amount of the Notes Outstanding relating to the exercise of any right, power or remedy available to the Trustee.

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

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

SECTION 6.4 Fees, Charges and Expenses of Trustee. The Trustee shall be entitled to payment and reimbursement for reasonable fees for its services rendered hereunder and all reasonable advances, reasonable counsel fees (including expenses) and other expenses reasonably and necessarily made or incurred by the Trustee in connection with such services, but solely from Additional Payments made by the Water District under the Installment Sale Agreement. Upon the occurrence of an Event of Default, the Trustee shall have a first lien with right of payment prior to payment of any Note upon the amounts held hereunder for the foregoing fees, charges and expenses incurred by it respectively.

SECTION 6.5 Notice to Note Owners of Default. If an Event of Default hereunder occurs with respect to any Notes, of which the Trustee has been given or is deemed to have notice, as provided in Section 6.3(h), then the Trustee shall promptly give written notice thereof by first-class mail to the Owner of each such Note, unless such Event of Default shall have been cured before the giving of such notice.

SECTION 6.6 Intervention by Trustee. In any judicial proceeding to which the Authority is a party which, in the opinion of the Trustee and its counsel, has a substantial bearing on the interests of Owners of any of the Notes, the Trustee may intervene on behalf of such Note Owners, and subject to Section 6.3(l), shall do so if requested in writing by the Owners of a majority in aggregate principal amount of such Notes then Outstanding.

SECTION 6.7 Removal of Trustee. The Owners of a majority in aggregate principal amount of the Outstanding Notes, or the Authority (so long as no Event of Default has occurred or is continuing), may at any time remove the Trustee initially appointed, and any successor thereto, by an instrument or concurrent instruments in writing delivered to the Trustee.

SECTION 6.8 Resignation by Trustee. The Trustee and any successor Trustee may at any time resign by giving written notice by registered or certified mail to the Water District and the Authority. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee in accordance with Section 6.9. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. Upon such acceptance, the successor Trustee shall mail notice thereof to the Note Owners at their respective addresses set forth on the Registration Books.

SECTION 6.9 Appointment of Successor Trustee. In the event of the removal or resignation of the Trustee pursuant to Sections 6.6 or 6.7, respectively, the Authority shall promptly appoint a successor Trustee; provided that any such successor shall be a bank or trust company meeting the requirements of Section 6.1. In the event the Authority shall for any reason whatsoever fail to appoint a successor Trustee within sixty (60) days following the delivery to the Trustee of the instrument described in Section 6.6 or within sixty (60) days following the receipt of notice by the Authority pursuant to Section 6.7, the Trustee may apply to a court of competent jurisdiction for the appointment of a successor Trustee meeting the requirements of Section 6.1. Any such successor Trustee appointed by such court shall become the successor Trustee hereunder notwithstanding any action by the Authority purporting to appoint a successor Trustee following the expiration of such sixty (60) day period. Upon the acceptance by any successor Trustee of appointment as such, the successor Trustee shall cause notice

thereof to be given by first class mail to the Note Owners at their respective addresses set forth on the Registration Books.

SECTION 6.10 Merger or Consolidation. Any company into which the Trustee may be merged or converted or which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such company shall be eligible under Section 6.1, shall be the successor to the Trustee and vested with all of the title to the trust estate and all of the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

SECTION 6.11 Concerning any Successor Trustee. Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to the Authority an instrument in writing accepting such appointment hereunder and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessors; but such predecessor shall, nevertheless, on the Written Request of the Authority, or of its successor, execute and deliver an instrument transferring to such successor all the estates, properties, rights, powers and trusts of such predecessor hereunder; and every predecessor Trustee shall deliver all securities and moneys held by it as the Trustee hereunder to its successor. Should any instrument in writing from the Authority be required by any successor Trustee for more fully and certainly vesting in such successor the estate, rights, powers and duties hereby vested or intended to be vested in the predecessor, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Authority.

SECTION 6.12 Appointment of Co-Trustee. It is the purpose of this Indenture that there shall be no violation of any law of any jurisdiction (including particularly the law of the State) denying or restricting the right of banking corporations or associations to transact business as Trustee in such jurisdiction. It is recognized that in the case of litigation under this Indenture, and in particular in case of the enforcement of the rights of the Trustee on default, or in the case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies herein granted to the Trustee or hold title to the properties, in trust, as herein granted, or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint an additional individual or institution as a separate or co-trustee. The following provisions of this Section are adopted to these ends.

In the event that the Trustee appoints an additional individual or institution as a separate or co-trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by and vest in such separate or co-trustee but only to the extent necessary to enable such separate or co-trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary to the exercise thereof by such separate or co-trustee shall run to and be enforceable by either of them.

Should any instrument in writing from the Authority be required by the separate trustee or co-trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to it such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Authority. In case any separate trustee or co-trustee, or a successor to either, shall become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate trustee or co-trustee, so far as

permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new trustee or successor to such separate trustee or co-trustee.

SECTION 6.13 Indemnification; Limited Liability of Trustee. The Authority further covenants and agrees to indemnify and save the Trustee and its officers, directors, agents and employees, harmless against any loss, costs, claims, expense and liabilities which it may incur arising out of or in the exercise and performance of its powers and duties hereunder, including the costs and expenses of defending against any claim of liability, but excluding any and all losses, costs, claims, expenses and liabilities which are due to the negligence or willful misconduct of the Trustee, its officers, directors or employees. No provision in this Indenture shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability hereunder or pursuant to the Installment Sale Agreement. The Trustee shall not be liable for any action taken or omitted to be taken by it in accordance with the direction of the Owners of a majority in aggregate principal amount of Notes Outstanding relating to the time, method and place of conducting any proceeding or remedy available to the Trustee under this Indenture. The obligations of the Authority under this paragraph shall be payable solely from Additional Payments made by the Water District under the Installment Sale Agreement and shall survive the resignation or removal of the Trustee under this Indenture or any defeasance of the Notes. The Trustee's rights to immunities and protection from liability hereunder and its rights to payment of its fees and expenses shall survive its resignation or removal and final payment or defeasance of the Notes. All indemnifications and releases from liability granted herein to the Trustee shall extend to the directors, officers, employees and agents of the Trustee.

The Trustee shall have no responsibility or liability with respect to any information, statements or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of these Notes. Before taking any action under Article VIII or this Article at the request of the Owners, the Trustee may require that a satisfactory indemnity Note be furnished by the Owners for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful misconduct in connection with any action so taken.

ARTICLE VII

MODIFICATION AND AMENDMENT OF THIS INDENTURE

SECTION 7.1 Amendment by Consent of Note Owners. This Indenture and the rights and obligations of the Authority and of the Owners of the Notes may be modified or amended at any time by a Supplemental Indenture which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Notes then Outstanding, exclusive of Notes disqualified as provided in Section 7.2 hereof, are filed with the Trustee. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Note or otherwise alter or impair the obligation of the Authority to pay the principal, interest or redemption premiums at the time and place and at the rate and in the currency provided therein of any Note without the express written consent of the Owner of such Note, (b) reduce the percentage of Notes required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

This Indenture and the rights and obligations of the Authority and of the Owners of the Notes may also be modified or amended at any time by a Supplemental Indenture which shall become binding upon adoption, without the consent of any Note Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

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

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in this Indenture, or in any other respect whatsoever as the Authority may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not materially adversely affect the interests of the Owners of the Notes, in the opinion of Bond Counsel.

The Trustee shall not be required to enter into or consent to any amendment or modification which, in the sole judgment of the Trustee, might adversely affect the rights, obligations, powers, privileges, indemnities, immunities or other security provided the Trustee herein.

SECTION 7.2 Disqualified Notes. Notes owned or held by or for the account of the Water District or the Authority (but excluding Notes held in any employees' retirement fund) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Notes in this article provided for, and shall not be entitled to consent to, or take any other action in this article provided for, unless all of the Outstanding Notes shall be owned or held by or for the account of the Water District or the Authority, provided however, that the Trustee shall not be deemed to have knowledge that any Note is owned by the Authority or the Water District or for the account of the Authority or the Water District unless the Authority or the Water District is a Registered Owner or the Trustee has received written notice that any other Registered Owner is the Owner of a Note for the account of the Water District or Authority.

SECTION 7.3 Endorsement or Replacement of Notes After Amendment. After the effective date of any action taken as hereinabove provided, the Authority may determine that the Notes shall bear a notation, by endorsement in form approved by the Authority, as to such action, and in that case upon demand of the Owner of any Note Outstanding at such effective date and presentation of his Note for that purpose at the Office of the Trustee, a suitable notation as to such action shall be made on such Note. If the Authority shall so determine, new Notes so modified as, in the opinion of the Authority, shall be necessary to conform to such Note Owners' action shall be prepared and executed, and in that case upon demand of the Owner of any Note Outstanding at such effective date such new Notes shall be exchanged at the Office of the Trustee, without cost to each Note Owner, for Notes then Outstanding, upon surrender of such Outstanding Notes.

SECTION 7.4 Amendment by Mutual Consent. The provisions of this Article shall not prevent any Note Owner from accepting any amendment as to the particular Note held by such Owner, provided that due notation thereof is made on such Note.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF NOTE OWNERS

SECTION 8.1 Events of Default and Acceleration of Maturities. The following events shall be Events of Default hereunder:

(a) Default in the due and punctual payment of the principal of any Note when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise.

(b) Default in the due and punctual payment of any installment of interest on any Note when and as such interest installment shall become due and payable.

(c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in this Indenture or in the Notes contained, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Water District and the Authority by the Trustee; provided, however, that if in the reasonable opinion of the Authority the default stated in the notice (other than a default in the payment of any fees and expenses owing to the Trustee) can be corrected, but not within such thirty (30) day period, such default shall not constitute an Event of Default hereunder if the Authority shall commence to cure such default within such thirty (30) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

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

(e) The occurrence and continuation of an Event of Default under and as defined in the Installment Sale Agreement.

Upon the occurrence and during the continuance of any Event of Default the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Notes at the time Outstanding, the Trustee shall, declare the principal of all of the Notes then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Notes contained to the contrary notwithstanding. This provision, however, is subject to the condition that if, at any time after the principal of the Notes shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority shall deposit with the Trustee a sum sufficient to pay all of the principal of and interest on the Notes having come due prior to such declaration, with interest on such overdue principal and interest calculated at the net effective rate of interest per annum then borne by the Outstanding Notes, and the reasonable fees and expenses of the Trustee, together with interest thereon at the prime rate of the Trustee then in effect, and any and all other defaults known to the Trustee (other than in the payment of the principal of and interest on the Notes having come due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee or the Owners of a majority in aggregate principal amount of the Notes at the time Outstanding may, by written notice to the Authority and to the Trustee, on behalf of the Owners of all of the Outstanding Notes, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

SECTION 8.2 Application of Funds Upon Acceleration. All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of this Indenture shall be applied by the Trustee in the following order upon presentation of the several Notes, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid:

First, to the payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under this Indenture; and

Second, to the payment of the whole amount then owing and unpaid upon the Notes for interest and principal, with interest on such overdue amounts to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Notes, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Notes, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably to the aggregate of such interest, principal and interest on overdue amounts.

SECTION 8.3 Other Remedies: Rights of Note Owners. Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy, in addition to the remedy specified in Section 8.1, at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Notes, and to enforce any rights of the Trustee under or with respect to this Indenture.

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of a majority in aggregate principal amount of Outstanding Notes and indemnified as provided in Section 6.3(l), the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by this Article, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Note Owners.

No remedy by the terms of this Indenture conferred upon or reserved to the Trustee (or to the Note Owners) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Note Owners hereunder or now or hereafter existing at law or in equity.

No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

SECTION 8.4 Power of Trustee to Control Proceeding. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the Owners of a majority in principal amount of the Notes then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Notes, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding Notes hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation. Any suit, action or proceeding which any Owner of Notes shall have the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all Owners of Notes similarly situated and the Trustee is hereby appointed (and the successive respective Owners of the Notes issued hereunder, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners of the Notes for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Notes as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

SECTION 8.5 Appointment of Receivers. Upon the occurrence of an Event of Default hereunder, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Note Owners under this Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and other amounts pledged hereunder, pending such proceedings, with such powers as the court making such appointment shall confer.

SECTION 8.6 Non-Waiver. Nothing in this Article or in any other provision of this Indenture, or in the Notes, shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the interest on and principal of the Notes to the respective Owners of the Notes at the respective dates of maturity, as herein provided, out of the Revenues and other moneys herein pledged for such payment.

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

SECTION 8.7 Rights and Remedies of Note Owners. No Owner of any Note issued hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Indenture, or the Installment Sale Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Notes then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) the Trustee has not received any inconsistent direction during such 60-day period from the Owners of a majority in aggregate principal amount of the Outstanding Notes.

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

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

SECTION 8.8 Termination of Proceedings. In case the Trustee shall have proceeded to enforce any right under this Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined

adversely, then and in every such case, the Authority, the Trustee and the Note Owners shall be restored to their former positions and rights hereunder, respectively, with regard to the property subject to this Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

ARTICLE IX

MISCELLANEOUS

SECTION 9.1 Limited Liability of Authority. Notwithstanding anything in this Indenture contained, the Authority shall not be required to advance any moneys derived from any source of income other than the Revenues for the payment of the principal of or interest on the Notes, or any premiums upon the redemption thereof, or for the performance of any covenants herein contained (except to the extent any such covenants are expressly payable hereunder from the Revenues or any Additional Revenues). The Authority may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose and may be used by the Authority for such purpose without incurring indebtedness.

The Notes shall be revenue Notes, payable exclusively from the Revenues and other funds pledged hereunder as in this Indenture provided. The general fund of the Authority is not liable, and the credit of the Authority is not pledged, for the payment of the interest on or principal of the Notes. The Owners of the Notes shall never have the right to compel the forfeiture of any property of the Authority. The principal of and interest on the Notes, and any premiums upon the redemption of any thereof, shall not be a debt of the Authority, or a legal or equitable pledge, charge, lien or encumbrance upon any property of the Authority or upon any of its income, receipts or revenues except the Revenues and other funds pledged to the payment thereof as in this Indenture provided.

SECTION 9.2 Benefits of Indenture Limited to Parties. Nothing in this Indenture, expressed or implied, is intended to give to any person other than the Water District, the Authority, the Trustee and the Owners of the Notes, any right, remedy or claim under or by reason of this Indenture. Any covenants, stipulations, promises or agreements in this Indenture contained by and on behalf of the Authority shall be for the sole and exclusive benefit of the Trustee and the Owners of the Notes.

SECTION 9.3 Discharge of Indenture. If the Authority shall pay and discharge each Outstanding Note in any one or more of the following ways -

(a) by well and truly paying or causing to be paid the principal of and interest and premium (if any) on such Notes, as and when the same become due and payable;

(b) by irrevocably depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established pursuant to this Indenture, is fully sufficient to pay such Notes, including all principal, interest and redemption premiums;

(c) by irrevocably depositing with the Trustee, in trust, Federal Securities in such amount as Bond Counsel or an Independent Accountant shall determine will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established pursuant to this Indenture, be fully sufficient to pay and discharge the indebtedness on such Notes (including all principal, interest and redemption premiums) at or before their respective maturity dates; and if such Notes are to be redeemed prior to the maturity thereof notice of such redemption shall have been mailed

pursuant to Section 2.3(c) or provision satisfactory to the Trustee shall have been made for the mailing of such notice; or

(d) by delivering such Notes to the Trustee for cancellation -

then, at the election of the Authority, and notwithstanding that any of such Notes shall not have been surrendered for payment, the pledge of the Revenues and other funds provided for in this Indenture with respect to such Notes, and all other pecuniary obligations of the Authority under this Indenture with respect to all such Notes, shall cease and terminate, except only the obligation of the Authority to pay or cause to be paid to the Owners of such Notes not so surrendered and paid all sums due thereon from amounts set aside for such purpose as aforesaid, and all expenses and costs of the Trustee. Notice of such election shall be filed with the Trustee. Any funds thereafter held by the Trustee, which are not required for said purposes, shall be paid over to the Water District.

SECTION 9.4 Successor Is Deemed Included in All References to Predecessor. Whenever in this Indenture or any Supplemental Indenture either the Authority is named or referred to, such reference shall be deemed to include the successor to the powers, duties and functions, with respect to the management, administration and control of the affairs of the Authority, that are presently vested in the Authority, and all the covenants, agreements and provisions contained in this Indenture by or on behalf of the Authority shall bind and inure to the benefit of its successors whether so expressed or not.

SECTION 9.5 Execution of Documents by Note Owners. Any request, consent or other instrument required by this Indenture to be signed and executed by Note Owners may be in any number of concurrent writings of substantially similar tenor and may be signed or executed by such Note Owners in person or by agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and of the Authority if made in the manner provided in this Section.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument or writing acknowledged to him the execution thereof.

The ownership of Notes shall be provided by the Registration Books. Any request, consent or vote of the Owner of any Note shall bind every future Owner of the same Note and the Owner of any Note issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Authority in pursuance of such request, consent or vote.

In determining whether the Owners of the requisite aggregate principal amount of Notes have concurred in any demand, request, direction, consent or waiver under this Indenture, Notes which are owned or held by or for the account of the Authority (but excluding Notes held in any employees' retirement fund) shall be disregarded and deemed not to be Outstanding for the purpose of any such determination.

In lieu of obtaining any demand, request, direction, consent or waiver in writing, the Trustee may call and hold a meeting of the Note Owners upon such notice and in accordance with such rules and obligations as the Trustee considers fair and reasonable for the purpose of obtaining any such action.

SECTION 9.6 Waiver of Personal Liability. No member of the Authority's Board of Directors, or officer, agent or employee of the Authority shall be individually or personally liable for the payment of the interest on or principal of the Notes; but nothing herein contained shall relieve any such officer, agent or employee from the performance of any official duty provided by law.

SECTION 9.7 Partial Invalidity. If any one or more of the covenants or agreements, or portions thereof, provided in this Indenture on the part of the Authority (or of the Trustee) to be performed should be contrary to law, then such covenant or covenants, such agreement or agreements, or such portions thereof, shall be null and void and shall be deemed separable from the remaining covenants and agreements or portions thereof and shall in no way affect the validity of this Indenture or of the Notes; but the Note Owners shall retain all rights and benefits accorded to them under the Bond Law or any other applicable provisions of law. The Authority hereby declares that it would have entered into this Indenture and each and every other section, paragraph, subdivision, sentence, clause and phrase hereof and would have authorized the issuance of the Notes pursuant hereto irrespective of the fact that any one or more sections, paragraphs, subdivisions, sentences, clauses or phrases of this Indenture or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

SECTION 9.8 Destruction of Canceled Notes. Whenever in this Indenture provision is made for the surrender to the Authority of any Notes which have been paid or canceled pursuant to the provisions of this Indenture, Trustee shall destroy such Notes and furnish to the Authority upon the Authority's Written Request a certificate of such destruction.

SECTION 9.9 Funds and Accounts. Any fund or account required by this Indenture to be established and maintained by the Authority or the Trustee may be established and maintained in the accounting records of the Authority or the Trustee, as the case may be, either as a fund or an account, and may, for the purpose of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account. All such records with respect to all such funds and accounts held by the Authority shall at all times be maintained in accordance with generally accepted accounting principles and all such records with respect to all such funds and accounts held by the Trustee shall be at all times maintained in accordance with corporate trust industry practices; in each case with due regard for the protection of the security of the Notes and the rights of every Owner thereof.

SECTION 9.10 Notices. All written notices to be given under this Indenture shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or at such address as the party may provide to the other party in writing from time to time. Notice shall be effective either (a) upon transmission by facsimile transmission or other form of telecommunication, (b) upon receipt after deposit in the United States mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The Water District, the Authority or the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

If to the Water District:

Victorville Water District
17185 Yuma Street
Victorville, California 92392
Attention: Director of Water District
Tel: (760) 955-2557
Fax: (760) 269-0088

If to the Authority:

Victorville Joint Powers Financing Authority
14343 Civic Drive
Victorville, California 92393-5001
Attention: Executive Director
Tel: (760) 955-5000
Fax: (760) 955-5042

If to the Trustee:

The Bank of New York Mellon Trust Company, N.A.
700 South Flower Street, Suite 500
Los Angeles, California 90017-4104
Attention: Corporate Trust
Tel: (213) 630-6231
Fax: (213) 630-6215

SECTION 9.11 Unclaimed Moneys. Anything in this Indenture to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of any of the Notes which remain unclaimed for two (2) years after the date when such Notes or interest thereon have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee at such date, or for two (2) years after the date of deposit of such moneys if deposited with the Trustee after said date when such Notes become due and payable, shall be repaid by the Trustee to the Authority, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Note Owners shall look only to the Authority for the payment of such Notes; provided, however, that before being required to make any such payment to the Authority, the Trustee shall, at the Written Request of the Authority (and at its expense), cause to be mailed to the Owners of all such Notes, at their respective addresses appearing on the Registration Books, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall not be less than thirty (30) days after the date of mailing of such notice, the balance of such moneys then unclaimed will be returned to the Authority.

SECTION 9.12 Execution in Several Counterparts. This indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Authority and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

SECTION 9.13 Governing Law. This Indenture shall be governed by and construed in accordance with the laws of the State.

IN WITNESS WHEREOF, the VICTORVILLE JOINT POWERS FINANCING AUTHORITY and the VICTORVILLE WATER DISTRICT have caused this Indenture of Trust to be signed in their names by their respective authorized officers, and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., in token of its acceptance of the trust created hereunder, has caused this Indenture to be signed in its corporate name by its officer identified below, all as of the day and year first above written.

**VICTORVILLE JOINT POWERS FINANCING
AUTHORITY**

By: _____
Title: President

VICTORVILLE WATER DISTRICT

By: _____
Title: Chairman

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

By: _____
Authorized Officer

ATTEST

By: _____
Authority Secretary

By: _____
Water District Secretary

APPROVED AS TO FORM

By: _____
Authority Counsel

By: _____
Water District Legal Counsel

Victorville Water District Risk Manager
Chuck Buquet

EXHIBIT A

[FORM OF NOTE]

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AS DEFINED IN THE INDENTURE OF TRUST) TO THE TRUSTEE FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

NEITHER THE PAYMENT OF THE PRINCIPAL OR ANY PART THEREOF NOR ANY INTEREST THEREON CONSTITUTES A DEBT, LIABILITY OR OBLIGATION OF THE CITY OF VICTORVILLE OR THE REDEVELOPMENT AGENCY OF THE CITY OF VICTORVILLE.

No. _____

\$ _____

VICTORVILLE JOINT POWERS FINANCING AUTHORITY
TAXABLE WASTEWATER REVENUE NOTE, 2009 SERIES
(VICTORVILLE WATER DISTRICT)

| INTEREST RATE | MATURITY DATE | ISSUE DATE | CUSIP |
|---------------|---------------|-------------|-------|
| _____ % | _____ 1, 20__ | _____, 2009 | _____ |

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: _____

DOLLARS

The VICTORVILLE JOINT POWERS FINANCING AUTHORITY, a joint powers authority organized and existing under the laws of the State of California (the "Authority") for value received, hereby promises to pay (but only out of the Revenues and other assets pledged therefor as hereinafter mentioned) to the Registered Owner stated above, or registered assigns, on the Maturity Date stated above (subject to any right of prior redemption hereinafter mentioned), the Principal Amount stated above, in lawful money of the United States of America; and to pay interest thereon in like lawful money from the Interest Payment Date next preceding the date of authentication of this Note (unless this Note is authenticated as of a day during the period commencing after the fifteenth day of the month preceding an Interest Payment Date and ending on or before such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless this Note is authenticated on or before November 15, 2009, in which event it shall bear interest from the Issue Date stated above) until payment of such principal sum shall be discharged as provided in the Indenture hereinafter mentioned, at the Interest Rate

per annum stated above, payable semiannually on each June 1 and December 1, commencing December 1, 2009 (each, an "Interest Payment Date").

The principal (or redemption price) hereof is payable at the Office (as defined in the Indenture referred to below) of The Bank of New York Mellon Trust Company, N.A., Los Angeles, California (together with any successor trustee under the Indenture, the "Trustee"). Interest hereon is payable by check of the Trustee mailed on each Interest Payment Date to the Registered Owner as of the fifteenth (15th) day of the month preceding each Interest Payment Date at the address shown on the registration books maintained by the Trustee; provided however, that payment of interest will be made by wire transfer in immediately available funds to an account in the United States of America to any Owner of Notes in the aggregate principal amount of \$1,000,000 or more who shall furnish written wire instructions to the Trustee before the fifteenth day of the month preceding the applicable Interest Payment Date.

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

This Note shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

This Note is one of a duly authorized issue of notes of the Authority designated as its "Victorville Joint Powers Financing Authority Taxable Wastewater Revenue Notes, 2009 Series (Victorville Water District)" (the "Notes"), in the aggregate principal amount of _____ Dollars (\$ _____), authorized pursuant to the provisions of Article 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6584) of the California Government Code (the "Bond Law"), and issued pursuant to an Indenture of Trust, dated as of May 1, 2009 (the "Indenture"), by and among the Authority, the Victorville Water District (the "Water District"), and the Trustee.

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

The Notes have been issued by the Authority to assist the Water District in financing the construction of a wastewater treatment plant as well as certain other improvements to the Wastewater Enterprise. Pursuant to an Installment Sale Agreement, dated as of May 1, 2009, by and between the Water District and the Authority, the Authority will sell to the Water District such improvements and the Water District will pay, in consideration therefor, Installment Payments, secured by the Net Revenues of the Wastewater Enterprise, as defined in the Indenture. The scheduled Installment Payments are equal to the debt service payments on the Notes.

The Notes and the interest thereon are payable from Revenues (as such term is defined in the Indenture), consisting primarily of Installment Payments to be made by the Water District under the Installment Sale Agreement as consideration for the purchase of the Wastewater Enterprise, and are secured by a pledge and assignment of said Revenues, subject only to the provisions of the Indenture

permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Notes are special obligations of the Authority and are not a lien or charge upon the funds or property of the Authority, except to the extent of the aforesaid pledge and assignment.

The Notes shall be subject to special mandatory redemption as a whole or in part, on a pro rata basis among Owners, on any date, to the extent of the proceeds of an eminent domain award or proceeds of casualty insurance not used to repair or rebuild the Wastewater Enterprise, which proceeds may be used for such purpose pursuant to Sections 5.4 or 5.6 of the Installment Sale Agreement, at a redemption price equal to the principal amount of the Notes to be redeemed plus interest accrued thereon to the date fixed for redemption, without premium.

The Notes shall be subject to redemption, as a whole or in part, on a pro rata basis among Owners, prior to maturity on any date on or after ___ 1, 20 __, from prepayment of Installment Payments made at the option of the Water District at the redemption price equal to the principal amount of the Notes to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

The Trustee on behalf and at the expense of the Authority shall mail (by first class mail) notice of any redemption to: (i) the respective Owners of any Notes designated for redemption, at least thirty (30) but not more than sixty (60) days prior to the redemption date, at their respective addresses appearing on the Registration Books, and (ii) the Securities Depositories and to one or more Information Services (as such terms are defined in the Indenture), at least thirty (30) but not more than sixty (60) days prior to the redemption; *provided, however*, that neither failure to receive any such notice so mailed nor any defect therein shall affect the validity of the proceedings for the redemption of such Notes or the cessation of the accrual of interest thereon. Interest on the Notes called for redemption will not accrue from and after the redemption date.

The Notes are issuable as fully registered Notes in denominations of \$100,000 and any integral multiple thereof. Subject to the limitations provided in the Indenture, Notes may be exchanged, at said Office of the Trustee, for a like aggregate principal amount of Notes of other authorized denominations of the same maturity.

The Trustee has no obligation or liability to the Registered Owners to make payments of principal of or interest on the Notes, except from amounts on deposit for such purposes with the Trustee. The Trustee's sole obligations are to administer for the benefit of the Registered Owners the various funds and accounts established under the Indenture of Trust and, to the extent provided in the Indenture of Trust, to enforce the rights of the Authority under the Installment Sale Agreement.

This Note is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at said Office of the Trustee, but only in the manner, subject to the limitations provided in the Indenture, and upon surrender and cancellation of this Note. Upon such transfer, a new Note or Notes, of authorized denomination or denominations, of the same series, maturity and for the same aggregate principal amount, will be issued to the transferee in exchange herefor.

If an Event of Default, as defined in the Indenture, shall occur, the principal of all outstanding Notes may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture, but such declaration and its consequences may be rescinded and annulled as further provided in the Indenture.

The Indenture and the rights and obligations of the Authority and of the owners of the Notes and of the Trustee may be modified or amended from time to time and at any time in the manner, to the extent, and upon the terms provided in the Indenture; provided that no such modification or amendment

shall (a) extend the maturity of or reduce the interest rate on any Note or otherwise alter or impair the obligation of the Authority to pay the principal, interest or redemption premiums at the time and place and at the rate and in the currency provided therein of any Note without the express written consent of the owner of such Note, (b) reduce the percentage of Notes required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee, all as more fully set forth in the Indenture.

The Authority and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes and the Authority and the Trustee shall not be affected by any notice to the contrary.

IN WITNESS WHEREOF, the Victorville Joint Powers Financing Authority has caused this Note to be executed in its name and on its behalf by the manual signature of its President and attested to by the manual signature of its Secretary, all as of the Issue Date stated above.

**VICTORVILLE JOINT POWERS FINANCING
AUTHORITY**

By _____
President

Attest:

Secretary

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Notes described in the within-mentioned Indenture.

Dated: _____, 2009

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

By _____
Authorized Signatory

ASSIGNMENT

For value received the undersigned hereby sells, assigns and transfers unto

(Name, Address and Tax Identification or Social Security Number)
the within-mentioned Note and hereby irrevocably constitute(s) and appoint(s) _____

attorney, to transfer the same on the registration books of the Trustee with full
power of substitution in the premises.

Dated: _____

Signature Guaranteed:

Signature(s) must be guaranteed by a qualified
guarantor.

Note: The signature(s) on this Assignment must
correspond with the name(s) as written on the face
of the within Note in every particular without
alteration or enlargement or any change whatsoever.

EXHIBIT B

**VICTORVILLE JOINT POWERS FINANCING AUTHORITY
TAXABLE WASTEWATER REVENUE NOTES, 2009 SERIES
(VICTORVILLE WATER DISTRICT)**

(Issue Dated Date: _____, 2009)

Requisition of the Water District
(Acquisition and Construction Fund)
(Section 3.5 of the Indenture)

The Bank of New York Mellon Trust Company, N.A.
Attention: Corporate Trust Department

Request No.: P-___ (to be sequentially numbered)

| <u>Project Component</u> | <u>Amount of This Draw</u> | <u>Aggregate Amount Draws Including This Draw</u> |
|--------------------------|--------------------------------|---|
| | _____ | _____ |
| | _____ | _____ |
| | _____ | _____ |
| | _____ | _____ |
| | _____ | _____ |
| | _____ | _____ |
| | _____ | _____ |
| | _____ | _____ |
| | _____ | _____ |
| | _____ | _____ |

(Continue on Additional Sheet if Necessary)

Name and Address of party to whom payment is to be made:

Purpose for which the obligation was incurred:

The undersigned (the "Water District") hereby certifies that (i) each such cost or expense constitutes a proper charge against the Acquisition and Construction Fund for services rendered, and has not been the subject of any other payment request filed with you; and (ii) if the payment is to be made to the Water District for amounts that it has paid or will pay to third parties, then the Water District has either made payment or will make payment within three business days of receipt of moneys requisitioned hereunder and that the aggregate number of business days during this calendar year during which it has held such amounts before making payment does not exceed twenty.

Date: _____

VICTORVILLE WATER DISTRICT

By: _____

Title: _____