



**IMPROVEMENT CORPORATION ANNUAL MEETING
AGENDA**

**Monday, April 17, 2023 — 3:00 PM
(Immediately following the MSWD Board of Directors
Regular Meeting at 3:00 PM)**

**NOTICE IS HEREBY GIVEN THAT THE BOARD OF DIRECTORS OF MISSION SPRINGS WATER DISTRICT WILL HOLD ITS
REGULAR MEETING(S) ON THE DATE LISTED ABOVE. THE BOARD WILL MEET IN PERSON AT 66575 2ND STREET,
DESERT HOT SPRINGS.**

**THE PUBLIC IS PERMITTED TO ATTEND THIS MEETING IN PERSON OR VIRTUALLY USING THE ZOOM LINK
BELOW.JOIN ZOOM MEETING:**

<https://us02web.zoom.us/j/8220655340?from=addon>

DIAL BY PHONE:

+1 (408) 638-0968

Meeting ID: 822 065 5340

ACTION MAY BE TAKEN ON ANY ITEM LISTED ON THIS AGENDA

1. CALL TO ORDER

**2. APPROVAL OF MINUTES
- Minutes of April 18, 2022**

3. LONG-TERM DEBT

Recommendation: Receive and file the following report:

The Improvement Corporation was first used in 1986 to issue \$3,500,000 of Certificates of Participation (COP's). In July of 1994, the remaining balance (\$3,070,000) was refunded, and new certificates were issued. The Corporation was used again in July 2001 to issue \$348,000 in COP's relative to the Improvement District "E" project.

Long-Term Debt	
Date of Issue	7/3/2001
Interest Rate	4.5%
Loan Proceeds	\$348,000
Less Principal Payments	\$118,200
Remaining Balance	\$229,800 - Through 3/31/2023
Final Payment Due	2/1/2041

4. ADJOURN

If you need special assistance to participate in this meeting, please contact the Executive Assistant at (760) 660-4403 at least 48 working hours prior to the meeting.

ANY DISCLOSABLE PUBLIC RECORDS RELATED TO AN OPEN SESSION ITEM ON A REGULAR MEETING AGENDA AND DISTRIBUTED BY MISSION SPRINGS WATER DISTRICT TO ALL OR A MAJORITY OF THE BOARD OF DIRECTORS LESS THAN 72 HOURS PRIOR TO THAT MEETING ARE AVAILABLE FOR PUBLIC INSPECTION AT THE DISTRICT OFFICE, 66575 SECOND STREET, DESERT HOT SPRINGS, CALIFORNIA DURING NORMAL BUSINESS HOURS AND MAY ALSO BE AVAILABLE ON THE DISTRICT'S WEBSITE AT WWW.MSWD.ORG/MEETINGS. NOTE: THE PROCEEDINGS MAY BE AUDIO AND VIDEO RECORDED.

CERTIFICATION OF POSTING

I certify that on or before April 14, 2023, a copy of the foregoing notice was posted near the regular meeting place of the Board of Directors of Mission Springs Water District at least 72 hours in advance of the meeting (Government Code Section 54954.2).



Arden Wallum
Secretary of the Board of Directors



IMPROVEMENT CORPORATION ANNUAL MEETING MINUTES

Monday, April 18, 2022

(Immediately Following the MSWD Board regular meeting at 3:00 PM)

CALL TO ORDER

President Martin called the meeting to order at 4:05 PM

PUBLIC INPUT

No public input

APPROVAL OF THE MINUTES - APRIL 18, 2022

Motion made by Vice President Wright, Seconded by President Martin.

Voting Yea: President Martin, Director Sewell, Vice President Wright, Director Duncan

Absent: Director Grasha

LONG-TERM DEBT

Recommendation: Receive and file the following report:

The Improvement Corporation was first used in 1986 to issue \$3,500,000 of Certificates of Participation (COP's). In July of 1994, the remaining balance (\$3,070,000) was refunded, and new certificates were issued. The Corporation was used again in July 2001 to issue \$348,000 in COP's relative to the Improvement District "E" project.

Long-Term Debt	
Date of Issue	7/3/2001
Interest Rate	4.5%
Loan Proceeds	\$348,000
Less Principal Payments	\$110,000
Remaining Balance	\$238,000 through 3/31/22
Final Payment Due	2/1/2041

Mr. Wallum provided some details on this item. After a brief discussion the Board received and filed this report.

ADJOURN

With no further business President Martin adjourned the meeting at 4:11 P.M.

Respectfully,

Arden Wallum
Secretary of the Board of Directors

AGENDA STAFF REPORT

MEETING NAME: REGULAR BOARD MEETINGS
MEETING DATE(S): APRIL 13 & 17, 2023
FROM: ARTURO CEJA – DIRECTOR OF FINANCE



FOR: ACTION DIRECTION INFORMATION

ACCEPT AND FILE THE MSWD IMPROVEMENT CORPORATION LONG-TERM DEBT REPORT FOR MARCH 31, 2023

STAFF RECOMMENDATION

It is recommended to accept and file the MSWD Improvement Corporation annual Long-Term Debt Report for March 31, 2023.

SUMMARY

The Improvement Corporation was first used in 1986 to issue \$3,500,000 of Certificates of Participation (COP's). In July of 1994 after receiving grant funding, the remaining balance (\$3,070,000) was refunded, and new certificates were issued. The Corporation was used again in July 2001 to issue \$348,000 in COP's relative to the Improvement District "E" project.

ANALYSIS

The Improvement Corporation is a separate entity from the District and is used to issue Certificates of Participation on its behalf. During the annual meeting, the Long-Term Debt Report is reviewed, accepted, and filed to identify any COP's outstanding. Loan proceeds amounted to \$348,000 with principal payments of \$118,200 and a remaining balance of \$229,800.00 at March 31, 2023.

FISCAL IMPACT AND STRATEGIC PLAN IMPLEMENTATION

Principal and interest payments in the amount of \$8,200.00 and \$10,710.00 respectively were paid in the year. These amounts were included in the 2022-2023 Budget.

ATTACHMENTS

Administration & Assignment Agreement

BEST BEST & KRIEGER LLP

A CALIFORNIA LIMITED LIABILITY PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

RIVERSIDE
(909) 686-1450

INDIAN WELLS
(760) 568-2611

LAWYERS

402 WEST BROADWAY, 13TH FLOOR
SAN DIEGO, CALIFORNIA 92101-3542
(619) 525-1300
(619) 233-6118 FAX
BBKLAW.COM

ONTARIO
(909) 989-8584

ORANGE COUNTY
(714) 939-5940

SACRAMENTO
(916) 974-3400

WARREN B. DIVEN
(619) 525-1337
WBDIVEN@BBKLAW.COM
FILE No. 60340.00001

March 25, 2002

Wayne Nielson
Director of Finance
Mission Springs Water District
66-575 Second Street
Desert Hot Springs, CA 92240

Re: Mission Springs Water District
Certificates of Participation
(2001 Financing Project, Series A)

Dear Wayne:

Enclosed at your request please find copies of the following executed documents pertaining to the above referenced financing:

- A. Installment Sale Agreement; and
- B.** Administration and Assignment Agreement.

I will have a transcript of all of the documents including resolutions, closing certificates and opinions put together for you as soon as my secretary returns from disability. She should be back in three-four weeks. If you should need any other documents in the meantime, do not hesitate to ask.

Please feel free to call if you have any questions regarding these documents.

Respectfully yours,



Warren B. Diven
for BEST BEST & KRIEGER LLP

WBD:blr
Enclosures

ADMINISTRATION AND ASSIGNMENT AGREEMENT

RELATING TO MISSION SPRINGS WATER DISTRICT
2001 FINANCING PROJECT, SERIES A

Dated February 1, 2001

by and between

MISSION SPRINGS WATER DISTRICT IMPROVEMENT CORPORATION
(the "Seller")

and

MISSION SPRINGS WATER DISTRICT
(the "Water District")

ADMINISTRATION AND ASSIGNMENT AGREEMENT

THIS AGREEMENT is made and entered into on February 1, 2001, by and between Mission Springs Water District Improvement Corporation, a non profit public benefit corporation duly organized and existing under the laws of the State of California, as seller under the Installment Sale Agreement described hereinafter (the "Seller"), and Mission Springs Water District, a public agency duly organized and existing under the laws of the State of California, as purchaser under the Installment Sale Agreement (the "Water District");

WITNESSETH:

WHEREAS, the Water District and the Seller have entered into an Installment Sale Agreement (the "Installment Sale Agreement"), dated as of the date hereof, whereby the Seller has agreed to cause the construction and installation of the Project identified and described therein (the "Project") and to sell the Project to the Water District, and whereby the Water District has agreed to purchase the Project from the Seller; and

WHEREAS, pursuant to the Installment Sale Agreement, the Water District will obligate itself to make installment payments for the purchase of the Project in the amounts and on the dates set forth in Exhibit A thereto (the "Installment Payments"); and

WHEREAS, for the purpose of obtaining the moneys required to be deposited by the Seller with the Water District with respect to the construction and installation of the Project, the Seller proposes to assign and transfer certain of its rights under the Installment Sale Agreement to the United States of America, acting through the Rural Utilities Service, USDA ("USDA") such assignment to be evidenced by a Certificate of Participation, to provide the moneys required herein to be deposited by the Seller with the Water District; and

WHEREAS, the Board of Directors of the Water District has determined that it will be in the best interest of the Water District for the Water District to purchase the Project from the Seller as provided in the Installment Sale Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties hereto hereby agree as follows:

ARTICLE I

APPOINTMENT OF PAYING AGENT AND REGISTRAR AND DEFINITIONS

Section 1.01. Appointment of Paying Agent and Registrar. The Seller and the Water District hereby appoint the Director of Finance of the Water District (the "Director of Finance") to receive, hold, invest and disburse, upon direction of the Water District and the USDA, the moneys to be paid pursuant to the Installment Sale Agreement for credit to the various funds and accounts established by this Agreement, and to perform certain other functions all as hereinafter provided. The parties hereto acknowledge and agree that at the request of USDA, the Director of Finance may be replaced by a corporate trustee to perform the duties required of the Director of Finance as enumerated herein.

Section 1.02. Definitions. Unless the context otherwise requires, the terms defined in this section shall have the meanings herein specified or in the Installment Sale Agreement.

"Acquisition and Construction Costs" means the purchase prices for the acquisition of the property and easements which are necessary for the construction and installation of the Project and the contract prices paid or to be paid for the design, acquisition, construction, installation or delivery of any portion of the Project and related facilities, in accordance with a purchase or construction contract therefor. Acquisition and Construction Costs include any other administrative, engineering, legal, costs of issuance, financial and other costs incurred by the Water District and the Seller in connection with the construction, installation and financing of the Project, including costs incurred prior to the date of this Agreement.

"Acquisition and Construction Fund" means the fund by that name established and held by the Director of Finance pursuant to Section 3.01 of this Agreement.

"Agreement" means this Administration and Assignment Agreement, together with any amendments or supplements hereto permitted to be made hereunder.

"Certificates" means the \$348,000 aggregate principal amount of "Mission Springs Water District Certificates of Participation (2001 Financing Project, Series A)" to be executed and delivered pursuant hereto.

"Closing Date" means the day when the Certificates, duly executed by the Seller, are delivered to the original purchaser thereof.

"Code" means the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

"Director of Finance" means the Director of Finance of the Mission Springs Water District, or any other entity appointed to act as the paying agent and registrar hereunder.

"Event of Default" means an event of default under the Installment Sale Agreement, as defined in Section 9.1 thereof.

"Federal Securities" means any of the following which are noncallable and which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

(a) cash; and

(b) direct general obligations of (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 payment of principal of and interest on which is unconditionally guaranteed by the United States of America.

“Financial Newspaper” means any of the following: (1) the western and eastern editions of The Wall Street Journal or The Bond Buyer; or (2) any other newspaper of general circulation in Los Angeles, California, and the same or similar newspaper of general circulation in New York, New York, each of which carries financial news and is customarily published on each business day.

“Fiscal Year” means any period of twelve (12) consecutive months established by the Water District as its fiscal year and shall initially mean the period commencing on July 1 of one year and ending on June 30 of the following year.

“Independent Counsel” means an attorney duly admitted to the practice of law before the highest court of the state in which such attorney maintains an office and who is not an employee of the Seller or the Water District.

“Independent Engineer” means a consulting engineering firm or engineer which is not an employee of, or otherwise controlled by, the Seller or the Water District.

“Independent Financial Consultant” means a firm of certified public accountants or a consulting engineering firm or engineer which is not an employee of, or otherwise controlled by, the Seller or the Water District.

“Installment Payment” means any payment required to be paid by the Water District to the Seller pursuant to Section 4.4 of the Installment Sale Agreement.

“Installment Payment Fund” means the fund by that name established and held by the Director of Finance pursuant to Article V hereof.

“Installment Sale Agreement” means the installment sale agreement, dated as of February 1, 2001, by and between the Water District and the Seller, and any duly authorized and executed amendment thereto.

“Interest Payment Date” means February 1 or August 1 of each year, commencing August 1, 2001, and ending on February 1, 2041.

“Issue Price” means the initial offering price to the public (excluding bond houses and brokers) of the Certificates, or the aggregate principal amount of the Certificates, less original issue discount, if any, plus accrued interest from the original issue date of the Certificates to the Closing Date.

“Maximum Reserve Amount” means as of any date of determination an amount equal to the lesser of (i) ten percent (10%) of the Issue Price, (ii) one hundred twenty-five percent (125%) of the average annual amount of Installment Payments due throughout the Term of the Installment Sale Agreement, or (iii) the maximum amount of Installment Payments due in the year of determination or any subsequent year.

Execution Copy

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

“Outstanding” when used as of any particular time with respect to Certificates, means (subject to the provisions of Section 10.03 hereof) all Certificates theretofore executed and delivered by the Seller under this Agreement except:

(1) Certificates theretofore canceled by the Director of Finance or surrendered to the Director of Finance for cancellation;

(2) Certificates for the payment or prepayment of which funds or eligible securities in the necessary amount shall have theretofore been deposited with the Director of Finance pursuant to Section 14.02 of this Agreement (whether upon or prior to the maturity or prepayment date of such Certificates); provided that, if such Certificates are to be prepaid prior to maturity, notice of such prepayment shall have been given as provided in Section 4.03 hereof or provision satisfactory to the Director of Finance shall have been made for the giving of such notice; and

(3) Certificates in lieu of or in exchange for which other Certificates shall have been executed and delivered by the Director of Finance pursuant to Section 2.09 hereof.

“Owner” or “Certificate Owner” or “Owner of a Certificate” or any similar term, when used with respect to a Certificate, means the person in whose name the Certificate shall be registered on the registration books required to be maintained by the Director of Finance under Section 2.12 hereof.

“Parity Debt” means indebtedness or other obligations (including leases and installment sale agreements) issued or incurred by the Water District and secured by a pledge of and lien on Net Water Revenues equally and ratably with the Installment Payments.

“Payment Date” means the date upon which any Installment Payment is due and payable.

“Permitted Encumbrances” means, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the Water District may, pursuant to provisions of Article V of the Installment Sale Agreement, permit to remain unpaid; (ii) the Installment Sale Agreement and the assignment of the Seller’s interests in the Installment Sale Agreement pursuant to Section 5.01 of this Agreement; (iii) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; and (iv) easements, rights-of-way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the date of this Agreement and which the Water District certifies in writing will not materially impair the use of the Project.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

- (a) Federal Securities.
- (b) Pre-refunded municipal obligations meeting the following conditions:
 - (i) the obligations are not to be callable prior to maturity or the Director of Finance has been given irrevocable instructions concerning their calling and prepayment;
 - (ii) the obligations are secured by cash or Federal Securities which may be applied only to interest, principal and premium payments of such obligations;
 - (iii) the principal of and interest on the Federal Securities (plus any cash in the fund) are sufficient to meet the liabilities of such obligations;
 - (iv) the Federal Securities serving as security for such obligations are held by an escrow agent or trustee; and
 - (v) the Federal Securities are not available to satisfy any other claims, including those against the trustee or escrow agent.
- (c) Direct and general long-term obligations of any state or local government on which the full faith and credit of the state or local government is pledged and which are rated in either of the two highest rating categories by either Moody’s Investors Service, Inc. (hereinafter referred to as Moody’s) or Standard & Poor’s Corporation (hereinafter referred to as S&P) or, in the event both of such rating agencies rate such obligations, by both of them.
- (d) Direct and general short-term obligations of any state or local government described in subparagraph (c) above which are rated in the highest rating category by either Moody’s or S&P or, in the event both of such rating agencies rate such obligations, by both of them.
- (e) Interest-bearing demand or time deposits (including certificates of deposit) issued by state banks or trust companies, and national banking associations which are members of the Federal Deposit Insurance Corporation (FDIC) which are (i) continuously and fully insured by FDIC, (ii) issued by institutions that are rated at least P-1 by Moody’s or at least A-1 by S&P, or (iii) fully secured by direct and general obligations of the United States of America, or those which are unconditionally guaranteed as to principal and interest by the United States of America. Such United States of America obligations must have a market value at all times at least equal to the principal amount of the deposits. The United States of America obligations must be held by the Director of Finance or any Federal Reserve Bank or Depository, as custodian

for the institution issuing the deposits. The Director of Finance shall have a perfected first lien in the United States of America obligations serving as collateral, and that collateral is to be free from all third-party liens.

(f) Repurchase agreements collateralized by Federal Securities with any registered broker/dealer subject to the jurisdiction of Securities Investors Protection Corporation or any commercial bank, if the uninsured, unsecured and unguaranteed obligations of such broker/dealer or bank are rated P-1 or A-3 or better by Moody's and A-1 or A- or better by S&P, provided:

(i) a master repurchase agreement or specific written repurchase agreement governs the transaction, and

(ii) the Federal Securities are held free and clear of any lien by the Director of Finance or an independent third party acting solely as agent for the Director of Finance, and such third party is (a) a Federal Reserve Bank, or (b) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital surplus and undivided profits of not less than \$50,000,000, or (c) a bank approved in writing for such purpose by the Director of Finance shall have received written confirmation from such third party that it holds such Federal Securities, free and clear of any lien, as agent for the Director of Finance, and

(iii) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 CFR 306.1 et seq. or 31 CFR 350.0 et seq. in such Federal Securities is created for the benefit of the Director of Finance, and

(iv) the Director of Finance will value the Federal Securities monthly and will liquidate the Federal Securities if any deficiency in the required collateral percentage is not restored within two (2) business days of such valuation, and

(v) the repurchase agreement matures at least ten (10) days (or other appropriate liquidation period) prior to the debt service payment date with respect to Outstanding Certificates; and

(vi) the fair market value of the Federal Securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least one hundred percent (100%) of such amount.

This definition does not apply to repurchase agreements which evidence the obligations of the provider of an Investment Agreement.

(g) Money market funds registered under the Federal Investment Company Act of 1940, whose share are registered under the Securities Act of 1933, and having a rating by

Execution Copy

S&P of AAAM-G, AAAM or AAM, and, if rated by Moody's, rated Aaa or Aa2 (including those of the Director of Finance and its affiliates).

(h) Bankers' acceptances with maturities less than 365 days issued by banks rated A-1 by S&P or P-1 by Moody's and S&P which are eligible for purchase by the Federal Reserve Bank of New York.

(i) Investment agreements entered into between the Director of Finance and entities whose long-term unsecured obligations are rated at the time of execution in either of the two highest (excluding any modifier) categories by S & P and Moody's.

(j) Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating provided by S & P and Moody's issued by corporations that are organized and operating within the United States of America and that have an A or higher rating for their debentures, other than commercial paper, as provided for by S & P and Moody's;

"Prepayment" means any payment applied towards the prepayment of the Installment Payments pursuant to Section 4.4(b) of the Installment Sale Agreement.

"Principal Office" means Mission Springs Water District, 66575 Second Street, Desert Hot Springs, California 92240, Attention: Director of Finance.

"Project" means the facilities as more fully described in Exhibit B to the Installment Sale Agreement.

"Rebate Certificate" means the certificate delivered by the Water District on the Closing Date with regard to, among other matters, payments, if any, to be made from the Rebate Fund to the United States of America, as it may be amended and supplemented from time to time; provided, however, that no such certificate need be prepared if Bond Counsel so determines.

"Rebate Fund" means the account by that name established and held by the Director of Finance pursuant to Section 8.08 hereof.

"Regulations" means the proposed, temporary and permanent regulations of the Department of the Treasury of the United States promulgated under Section 103 and Sections 141 through 150 of the Code.

"Renewal and Extension Fund" means the fund by that name established and held by the Water District pursuant to Section 6.06 hereof.

"Reserve Fund" means the fund by that name established and held by the Director of Finance pursuant to Article VI hereof.

Execution Copy

“Seller” means Mission Springs Water District Improvement Corporation, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California.

“Seller’s Representative” means the Chairman or President of the Board of Directors of the Seller, or any person authorized to act on behalf of the Seller under or with respect to this Agreement, as evidenced by a certificate conferring such authorization executed by the Chairman or President of the Board of Directors of the Seller, given to the Water District.

“State” means the State of California.

“Term of the Installment Sale Agreement” means the time during which the Installment Sale Agreement is in effect, as provided in Section 4.3 of the Installment Sale Agreement.

“Water District” means the Mission Springs Water District, a public agency duly organized and existing under the laws of the State of California.

“Water District Representative” means the General Manager or Director of Finance of the Water District or any other person designated in writing by the Board of Directors of the Water District to act on behalf of the Water District with respect to this Agreement.

Section 1.03. Authorization. Each of the parties hereby represents and warrants that it has full legal authority and is duly empowered to enter into this Agreement, and has taken all actions necessary to authorize the execution of this Agreement by the officers and persons signing it.

ARTICLE II
THE CERTIFICATES OF PARTICIPATION

Section 2.01. Authorization. In connection with the execution and delivery of this Agreement, Seller is hereby authorized and directed to execute and deliver to the original purchaser Certificates in an aggregate principal amount of Three Hundred Forty Eight Thousand Dollars (\$348,000.00) evidencing the assignment of its rights hereunder to USDA, or its assigns.

Section 2.02. Date. Each Certificate shall bear an original issue date of July 3, 2001.

Section 2.03. Maturity; Interest Rates. Certificates shall mature on February 1, 2041, and shall bear interest at the rate of 4.50% per annum based upon a 365-day year.

Section 2.04. Form of Certificates; Interest. The Certificates shall be initially delivered in the form of one registered Certificate without coupons in the principal amount of \$348,000.00. Subject to the mandatory sinking fund provisions hereof, no Certificate may have principal maturing in more than one year. The Certificates shall be numbered in such manner as the Seller determines is appropriate.

Interest with respect to the Certificates shall be payable commencing on August 1, 2001, and thereafter semiannually on February 1 and August 1 of each year to and including as to each Certificate the date of maturity or prepayment, whichever is earlier. Said interest shall represent the portion of Installment Payments designated as interest and coming due during the six-month period preceding each Interest Payment Date with respect to the Certificates. The proportionate share of the portion of Installment Payments designated as interest owing during any Fiscal year with respect to any Certificate shall be computed by multiplying the portion of Installment Payments designated as principal with respect to such Certificate by the rate of interest applicable to such Certificate divided by two (2). Such amount of interest shall be payable on each Interest Payment Date during such Fiscal Year.

Interest with respect to any Certificate shall be payable from the Interest Payment Date next preceding the date of execution thereof, unless: (i) it is executed as of an Interest Payment Date, in which event interest with respect thereto shall be payable from the date of its execution, (ii) it is executed after the close of business on the fifteenth (15th) day of the month preceding an Interest Payment Date and before that Interest Payment Date, in which event interest with respect thereto shall be payable from such Interest Payment Date, or (iii) it is executed on or prior to July 15, 2001, in which event interest with respect thereto shall be payable from the Original Issue Date; provided, however, that if at the time of execution of any Certificate, interest with respect thereto is in default, interest with respect thereto shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment. So long as the Certificates are owned by USDA, payment of interest and principal with respect to the Certificates will be made through the Pre-Authorized Debt Payment Process. Otherwise, payment of interest with respect to any Certificate shall be made to the person appearing on the registration books of the Director of Finance as the Owner thereof in lawful money of the United States of America by check of the Director of Finance mailed by first class mail to such Owner at his address as it appears on such registration books, or at such other address as he may have filed with the Director of Finance for that purpose, as of the close of business on the fifteenth (15th) day of the month preceding any Interest Payment Date, in a manner which is reasonably calculated to be received by the Owner on each Interest Payment Date (provided that the Installment Payments have been paid timely under the Installment Sale Agreement) or by wire transfer made on an Interest Payment Date to an account in the United States of America upon written instructions of any Owner of \$200,000 or more in aggregate principal amount of Certificates received by the Director of Finance not later than the fifteenth (15th) day of the month preceding the Interest Payment Date. Such written notice shall remain in effect until changed by subsequent written notice by Owners who have requested wire transfer.

Section 2.05. Form; Temporary Certificates.

(a) The Certificates, and the assignment to appear thereon, shall be substantially in the form set forth in Exhibit A attached hereto and by this reference incorporated herein.

Execution Copy

(b) Prior to the preparation of the definitive form of the Certificates, as set forth in said Exhibit A, the Seller may execute and deliver, at the direction of the Water District in lieu of definitive Certificates, but subject to the same provisions, limitations and conditions as the definitive Certificates, one or more temporary Certificates, which shall be registered Certificates substantially in the form of the definitive Certificates, in denominations of \$5,000 or any integral multiple thereof, and with such omissions or insertions of and variations from the terms and conditions thereof as may be appropriate to temporary Certificates. Such temporary Certificates may be surrendered and exchanged, without charge to the Owners thereof, for definitive Certificates of the same aggregate principal amount and maturity as the temporary Certificates surrendered. Until so exchanged, the temporary Certificates shall in all respects be entitled to the same benefits and security as definitive Certificates. All temporary Certificates surrendered in exchange for definitive Certificates shall be forthwith canceled by the Seller.

Section 2.06. Execution. The Certificates shall be executed by and in the name of the Seller by the manual signature of an authorized officer of the Seller.

Section 2.07. Application of Proceeds. The proceeds received by the Water District from the sale of the Certificates shall forthwith be deposited by the Water District into the Acquisition and Construction Fund.

Section 2.08. Transfer and Exchange of Certificates. Any Certificate may, in accordance with its terms, be transferred upon the registration books required to be kept pursuant to the provisions of Section 2.12 hereof by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Certificate for cancellation at the Principal Office of the Director of Finance, accompanied by delivery of a written instrument of transfer, in a form approved by the Director of Finance, duly executed. Whenever any Certificate or Certificates shall be surrendered for transfer, the Director of Finance shall cause the Seller to execute and deliver a new Certificate or Certificates, in authorized denominations, for a like aggregate principal amount. Every Certificate so surrendered shall be canceled and destroyed by the Director of Finance. Certificates may be exchanged at the Principal Office of the Director of Finance for a like aggregate principal amount of Certificates of other authorized denominations and of the same maturity. The Director of Finance may require the payment by the Certificate Owner requesting such transfer or exchange of any tax or other governmental charge required to be paid with respect to such transfer or exchange. The Director of Finance shall not be required to transfer or exchange Certificates after the fifteenth (15th) day of the month next preceding any Interest Payment Date or any Certificate selected for prepayment.

In addition to the foregoing, any transfer of a Certificate shall be accompanied by a letter in a form acceptable to the Water District to the effect that the transferee of the Certificate is an accredited investor as defined by 17 C.F.R. 230.501 (Regulation D) or, alternatively, that the Director of Finance shall receive a letter of the Water District consenting to such transfer.

Section 2.09. Certificates Mutilated, Lost, Destroyed or Stolen. If any Certificate shall become mutilated, the Director of Finance, at the expense of the Owner of said

Execution Copy

Certificate, shall execute and deliver a new Certificate of like tenor and maturity and principal amount in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Director of Finance at the Principal Office of the Director of Finance of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Director of Finance shall be canceled and destroyed by the Director of Finance. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Director of Finance, and, if such evidence is satisfactory to the Director of Finance, and if an indemnity satisfactory to the Director of Finance shall be given, the Director of Finance, at the expense of the Certificate Owner, shall cause the Seller to execute and deliver a new Certificate of like tenor and maturity and principal amount, in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Director of Finance may require payment of an appropriate fee for each new Certificate delivered under this Section and of the expenses which may be incurred by the Director of Finance in carrying out its duties under this Section. Any Certificate issued under the provisions of this Section in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of this Agreement with all other Certificates secured by this Agreement. The Director of Finance shall not be required to treat both an original Certificate and any duplicate Certificate as being Outstanding for the purpose of determining the principal amount of Certificates executed and delivered hereunder or for the purpose of determining any percentage of Certificates Outstanding hereunder, but both the original and duplicate Certificate shall be treated as one and the same. Notwithstanding any other provision of this Section, in lieu of delivering a new Certificate which has been mutilated, lost, destroyed or stolen, and which has matured, the Director of Finance may make payment with respect to such Certificate.

Section 2.10. Paying Agent; Payment . The Director of Finance is hereby appointed paying agent for the Certificates. The principal components of the Certificates shall be payable in the amounts and on the dates set forth in accordance with the Installment Payment Schedule attached as Exhibit A without the need of presentations to the Director of Finance. Each principal payment shall reduce the amount of Certificates Outstanding by such principal amount and no new Certificate will be executed to evidence such principal reduction.

Section 2.11. Execution of Documents and Proof of Ownership . Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by this Agreement to be signed or executed by Certificate Owners may be in any number of concurrent instruments of similar tenor, and may be signed or executed by the Owners in person or by their attorneys or agents appointed by an instrument in writing for that purpose, or by any bank, trust company or other depository for such Certificates. Proof of the execution of any such instrument, or of any instrument appointing any such attorney or agent, and of the holding and ownership of Certificates shall be sufficient for any purpose of this Agreement (except as otherwise herein provided), if made in the following manner:

The fact and date of the execution by any Owner or his attorney or agent of any such instrument and of any instrument appointing any such attorney or agent, may be proved by a certificate, which need not be acknowledged or verified, of an officer of any bank or trust company located within the United States of America, or of any notary public, or other officer authorized to take acknowledgments of deeds to be recorded in the jurisdiction where the instru-

ment is executed, that the persons signing such instruments acknowledged before him the execution thereof. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such certificate shall also constitute sufficient proof of his authority.

Nothing contained in this Article II shall be construed as limiting the Director of Finance to such proof, it being intended that the Director of Finance may accept any other evidence of the matters herein stated which the Director of Finance may deem sufficient. Any request or consent of the Owner of any Certificate shall bind every future Owner of the same Certificate in respect of anything done or suffered to be done by the Director of Finance in pursuance of such request or consent.

Section 2.12. Registration Books. The Director of Finance shall keep, or cause to be kept, sufficient books for the registration and transfer of the Certificates which shall at all times upon reasonable notice during regular business hours be open to inspection by the Water District and the Seller; and, upon presentation for such purpose, the Director of Finance shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Certificates as hereinbefore provided.

ARTICLE III ACQUISITION AND CONSTRUCTION FUND

Section 3.01. Acquisition and Construction Fund. The Director of Finance shall establish a special fund designated as the "Acquisition and Construction Fund," shall keep such fund separate and apart from all other funds and moneys of the Water District, and shall administer such fund as provided herein and in the Installment Sale Agreement. The Acquisition and Construction Fund shall be held and applied by the Director of Finance in accordance herewith and shall be established for the benefit of the Water District and USDA.

Section 3.02. Purpose. Moneys in the Acquisition and Construction Fund shall be expended for payment or reimbursement of Acquisition and Construction Costs.

Section 3.03. Deposit of Funds; Payment of Acquisition and Construction Costs. There shall be deposited into the Acquisition and Construction Fund from the proceeds from the sale of the Certificates the amount set forth in Section 2.07 hereof. There shall also be deposited into the Acquisition and Construction Fund any other funds from time to time deposited with the Director of Finance for credit to the Acquisition and Construction Fund at the written instruction of the Water District or as otherwise provided in this Agreement.

The Director of Finance shall disburse moneys in the Acquisition and Construction Fund from time to time for the payment of Acquisition and Construction Costs upon receipt by the Director of Finance of a USDA-approved Partial Payment Estimate (a "Payment Estimate") signed by a Water District Representative and a representative of the USDA.

Execution Copy

The Director of Finance shall be responsible for the safekeeping and investment of the moneys held in the Acquisition and Construction Fund, and the payments therefrom in accordance with this Section. The Director of Finance may conclusively rely on the Payment Estimate submitted in accordance with this Section 3.03 as complete authorization for the disbursements made hereunder.

Section 3.04. Transfers of Unexpended Proceeds. Upon the earlier of (1) the filing with the Director of Finance of a certificate of the Water District Representative that all Acquisition and Construction Costs have been paid or are provided for, or (2) August 1, 2003, the Director of Finance shall retain in the Acquisition and Construction Fund the amount, if any, specified in a written notice signed by the Seller's Representative and filed with the Director of Finance to be required to pay future Acquisition and Construction Costs, and the Director of Finance shall withdraw and transfer to the Installment Payment Fund the balance of moneys in the Acquisition and Construction Fund. Thereafter, all amounts so retained in the Acquisition and Construction Fund but not subsequently used, and timely notice of such failure of use of which shall be given by the Seller's Representative to the Director of Finance, shall also be transferred by the Director of Finance into the Installment Payment Fund. The amounts so transferred from the Acquisition and Construction Fund to the Installment Payment Fund shall be credited to the payment of the Installment Payments as the same shall become due and payable and shall be invested so that the aggregate Yield on such moneys as invested shall not exceed the Yield on the Certificates.

Under the transfer of all such funds to the Installment Payment Fund, the Acquisition and Construction Fund shall be closed.

**ARTICLE IV
PREPAYMENT OF CERTIFICATES**

Section 4.01. Prepayment.

(a) Generally. The Certificates shall be subject to prepayment prior to maturity, but only in the manner, at the times and in all respects in accordance with the provisions of this Article IV.

(b) Optional Prepayment. The Certificates are subject, at the option of the Water District, to prepayment in whole or in part on any date, from any available source of funds, prior to their stated maturity, in inverse order of maturity and by lot within a maturity, so that the annual debt service for all years in which Certificates mature following such prepayment is as nearly equal as practicable, at a prepayment price equal to the principal amount to be prepaid plus accrued interest to the date fixed for prepayment, without premium for purposes of adjusting the debt service schedule, mandatory sinking fund prepayments shall be deemed to be maturities of the Certificates.

(c) Mandatory Sinking Fund Prepayment.

(i). The Certificates are also subject to mandatory sinking fund prepayment on each Interest Payment Date on or after August 1, 2001, by lot, at a prepayment price equal to the principal amount thereof, without premium, together with accrued interest to the date of prepayment, from the principal component of the Installment Payments to be made by the Water District pursuant to the Installment Sale Agreement in the principal amounts and on the dates to be determined as set forth in Exhibit B to this Agreement.

Notwithstanding any other provision of this Agreement, sinking fund prepayment shall occur without necessity of giving notice or without any presentation of Certificates. Such redemptions are to be noticed in the records of the Director of Finance.

(ii). In the event that the Water District shall prepay Certificates maturing in part but not in whole pursuant to subsection (b) of this Section 4.01, the amount of the Certificates to be prepaid on each prepayment date set forth in Exhibit B hereto shall be modified at the written direction of the Water District to correspond to the modified principal component of the Installment Payment due on such prepayment date.

(iii). In providing for the prepayment of Certificates pursuant to this subsection (c) the Director of Finance, at the written direction of the Water District may, utilizing funds on deposit in the Installment Payment Fund, purchase in the open market Certificates in the full principal amount of the Certificates to be prepaid on any prepayment date, or any part thereof; provided that the Water District may not direct such purchase of Certificates for such purpose after the seventy-fifth (75th) day preceding any such prepayment date; and provided further that, in purchasing Certificates, the Water District may not direct the Director of Finance to pay a purchase price for any Certificate which exceeds the principal amount thereof and accrued interest thereon. If the Director of Finance purchases Certificates in a principal amount which is less than the full principal amount of the Certificates to be prepaid on the succeeding prepayment date, the Director of Finance shall prepay Certificates in a principal amount equal to the remainder of the principal amount of Certificates to be prepaid on such prepayment date as provided in this subsection, and the principal component of the Installment Payment to be made by the Water District on such prepayment date shall be modified at the written direction of the Water District to correspond to the remainder of the principal amount of Certificates to be prepaid on such prepayment date.

Section 4.02. Selection of Certificates for Prepayment. Whenever provision is made for the prepayment of Certificates and less than all outstanding Certificates are called for prepayment, the Director of Finance shall select Certificates for prepayment, from the outstanding Certificates not previously called for prepayment, such that, as nearly as practicable, as directed by the Water District in writing, approximately equal principal and interest payments prevail with respect to the Certificates in each fiscal year following such prepayment. The Director of Finance shall select Certificates for prepayment by lot within a maturity. The

Execution Copy

Director of Finance shall promptly notify the Water District and the Seller in writing of the Certificates so selected for prepayment.

Section 4.03. Notice of Prepayment. When prepayment is authorized or required pursuant to Section 4.01 hereof, the Director of Finance shall give, at the expense of the Water District, notice of the prepayment of the Certificates. Except as to mandatory sinking fund prepayment and Certificates that are the subject of an advance refunding, notice of prepayment shall be given only if sufficient moneys to pay the prepayment price of the Certificates to be prepaid are on deposit with the Director of Finance and available for such purpose on the date notice of prepayment is given. Such notice shall specify: (a) that the Certificates or a designated portion thereof (in the case of prepayment of a Certificate in part but not in whole) are to be prepaid, (b) the date of prepayment, (c) CUSIP number, if any, and (d) the place or places where the prepayment will be made. Such notice shall further state that on the specified date there shall become due and payable upon each Certificate to be prepaid, the principal and premium, if any, together with interest accrued to said date, and that from and after such date interest with respect thereto shall cease to accrue and be payable.

Said notice shall be mailed by first class mail, postage prepaid, to the Owners of any Certificates designated for prepayment at their addresses appearing on the Certificate registration books, at least thirty (30) days but not more than sixty (60) days prior to the prepayment date, which notice shall, in addition to setting forth the above information, set forth, in the case of each Certificate to be prepaid only in part, the portion of the principal thereof which is to be prepaid; provided, however, that neither failure to mail such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the prepayment of such Certificates.

Section 4.04. Partial Prepayment of Certificates. Upon surrender of any Certificate prepaid in part only, the Director of Finance shall execute and deliver to the Owner thereof, at the expense of the Water District, a new Certificate or Certificates of authorized denominations equal in aggregate principal amount to the unprepaid portion of the Certificate surrendered, and of the same interest rate and the same maturity date. Such partial prepayment shall be valid upon payment of the amount required to be paid to such Owner, and the Water District, the Seller and the Director of Finance shall be released and discharged from all liability to the extent of such payment, irrespective of whether an endorsement as to such partial prepayment shall or shall not have been made upon the reverse of such Certificate by such Owner and irrespective of any error or omission in such endorsement.

Section 4.05. Effect of Notice of Prepayment. Notice having been given as aforesaid, and the moneys for the prepayment (including accrued interest to the date of prepayment) having been set aside in the Installment Payment Fund, the Certificates shall become due and payable on the date of prepayment, and, upon presentation and surrender thereof at the office of the Director of Finance specified in said notice, or upon the compliance with alternate instructions of the Water District, said Certificates shall be paid in the unpaid principal amount with respect thereto or portion thereof, if only partially prepaid, plus interest accrued and unpaid to said date of prepayment and premium, if any.

If, on the date of prepayment, moneys for the prepayment of all the Certificates to be prepaid, together with accrued interest to such date of prepayment, shall be held by the Director of Finance so as to be available therefor on such date of prepayment, and, if notice of prepayment thereof shall have been given as aforesaid, then, from and after the date of prepayment, interest with respect to the Certificates shall cease to accrue and become payable. All moneys held by or on behalf of the Director of Finance for the prepayment of Certificates shall be held in trust for the account of the Owners of the Certificates to be prepaid.

All Certificates prepaid prior to maturity pursuant to the provisions of this Article shall be canceled upon surrender thereof and destroyed by the Director of Finance.

ARTICLE V
ASSIGNMENT; INSTALLMENT PAYMENT FUND

Section 5.01. Assignment of Rights in Installment Sale Agreement. The Seller hereby transfers, assigns and sets over to the USDA all of its right, title and interest in the Installment Sale Agreement (excepting only its rights under Sections 7.3 and 9.4 thereof), including but not limited to all of the Seller's rights to receive and collect all of the Installment Payments, the Prepayments and all other amounts required to be deposited in the Installment Payment Fund pursuant to the Installment Sale Agreement and its rights to enforce remedies upon an Event of Default. Such Assignment shall be evidenced by the form of Certificate of Participation attached hereto as Exhibit A. All Installment Payments, prepayments and such other amounts (excluding reimbursed amounts), which the Seller may at any time be entitled to receive, shall be paid directly to the USDA, and all of the Installment Payments and prepayments collected or received by the Seller shall be deemed to be held and to have been collected or received by the Seller, and if received by the Seller at any time shall be deposited by the Seller with the Director of Finance within one (1) business day after receipt thereof, and all such Installment Payments, Prepayments and such other amounts shall be forthwith deposited by the Director of Finance upon receipt thereof in the Installment Payment Fund.

Section 5.02. Establishment of Installment Payment Fund. The Director of Finance shall establish a special fund designated as the "Installment Payment Fund" from which the Water District will make the Installment Payments to the USDA.

Section 5.03. Application of Moneys. All amounts in the Installment Payment Fund shall be used and withdrawn by the Director of Finance solely for the purpose of paying the principal of and interest and prepayment premiums, if any, with respect to the Certificates as the same shall become due and payable, in accordance with the provisions of Article II hereof. The Director of Finance shall be responsible for the safekeeping of the moneys held in the Installment Payment Fund.

Section 5.04. Surplus. Any surplus remaining in the Installment Payment Fund after prepayment and payment of all Certificates, including premiums, if any, and accrued interest, or after provision for such prepayment or payment has been made in accordance with Article IV hereof to the satisfaction of the Director of Finance, shall upon the written direction of

the Water District be withdrawn by the Director of Finance and remitted to the Water District which may then be used for any lawful purpose.

ARTICLE VI RESERVE FUND

Section 6.01. Establishment of Reserve Fund. The Director of Finance shall establish a special fund designated the "Reserve Fund." All moneys at any time on deposit in the Reserve Fund shall be held by the Director of Finance in trust for the benefit of the Owners of the Certificates and applied solely as provided herein.

Section 6.02. Required Deposits. Each year that the Certificates remain Outstanding, the Water District shall deposit to the Reserve Fund, on each Interest Payment Date, an amount equal to 1/20th of the Maximum Reserve Amount until the amount on deposit therein equals the Maximum Reserve Amount.

Section 6.03. Application in Event of Deficiency in Installment Payment Fund. If on any February 1 or August 1 the moneys on hand in the Installment Payment Fund do not equal the amount of the Installment Payment then due and payable, the Director of Finance shall apply the moneys on hand in the Reserve Fund to make such payment on behalf of the Water District by transferring the amount necessary to the Installment Payment Fund.

Section 6.04. Transfer of Amounts in Excess of Reserve Requirement. The Director of Finance shall, on or before each February 1 and August 1, transfer any moneys in the Reserve Fund in excess of the Reserve Requirement, except moneys therein which the Water District is required to be paid to the United States of America pursuant to Section 7.07 hereof, to the Installment Payment Fund.

Section 6.05. Transfer to Make All Installment Payments. If on any February 1 or August 1 the moneys on deposit in the Reserve Fund and the Installment Payment Fund are sufficient to pay all Outstanding Certificates, including all principal, interest and prepayment premiums (if any), the Director of Finance shall transfer all amounts then on hand in the Reserve Fund to the Installment Payment Fund to be applied to the payment of the Installment Payments or Prepayments on behalf of the Water District, and such moneys shall be paid to the Owners of the Outstanding Certificates in accordance with Article II hereof. Any amounts remaining in the Reserve Fund upon payment in full of all Outstanding Certificates, except moneys therein which are required to be paid to the United States of America from the Rebate Fund, shall upon written direction of the Water District Representative be released to the Water District.

The Director of Finance shall be responsible for the safekeeping of the moneys held in the Reserve Fund, and the payments therefrom in accordance with this Article VI.

Section 6.06. Renewal and Extension Fund. The Water District shall maintain and hold a separate fund to be known as the "Renewal and Extension Fund." The Water District shall deposit on each Interest Payment Date to the Renewal and Extension Fund the amounts required by Section 4.12 of the Installment Sale Agreement. The Water District may withdraw

amounts from the Renewal and Extension Fund for any lawful purpose of the Water System. Such purposes include, without limitation, emergency maintenance, extension of facilities, and the replacement of short-lived assets.

ARTICLE VII
MONEYS IN FUNDS; INVESTMENT; TAX COVENANTS; REBATE FUND

Section 7.01. Held in Trust. The moneys and investments held by the Director of Finance under this Agreement, other than moneys held in the Rebate Fund or required to be transferred to the Rebate Fund pursuant to the provisions of Section 7.08 hereof, are irrevocably held in trust for the benefit of the Owners of the Certificates and for the purposes herein specified, and such moneys shall be expended only as provided in this Agreement, and shall not be subject to levy or attachment or lien by or for the benefit of any creditor of the Seller, the Water District or any Owner of Certificates, or any of them.

Section 7.02. Investments Authorized; Investment Agreements. Moneys held by the Director of Finance hereunder shall, at the written direction of the Water District Representative, be invested and reinvested by the Director of Finance in Permitted Investments. Such investments shall be registered in the name of the Director of Finance for the benefit of the Certificate Owners and held by the Director of Finance. Moneys on deposit in the Reserve Fund shall be invested only in Permitted Investments having a term to maturity which is not longer than five (5) years.

Section 7.03. Accounting. If requested, the Director of Finance shall furnish to USDA, if available, monthly accounting of all investments made by the Director of Finance; provided that the Director of Finance shall not be obligated to deliver an accounting for any fund or account that (a) has a balance of zero and (b) has not had any activity since the last report date. The Director of Finance shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with this Agreement.

Section 7.04. Allocation of Earnings or Loss. Any income, profit or loss on such investments, other than that which is required to be transferred to the Rebate Fund pursuant to Section 7.08 hereof, shall be deposited in or charged to the respective funds from which such investments were made, and any interest on any deposit of funds shall be deposited in the fund from which such deposit was made.

Section 7.05. Deposit and Investment of Moneys in Funds. The Director of Finance may commingle any of the funds other than the Rebate Fund, held by it pursuant to this Agreement into a separate fund or funds for investment purposes; provided, however, that all funds or accounts held by the Director of Finance hereunder shall be accounted for separately notwithstanding such commingling by the Director of Finance.

Section 7.06. Tax Covenants. The Seller and the Water District hereby covenant with the Owners of the Certificates that:

(a) They will not take any action or omit to take any action, which action or omission, if reasonably expected on the date of the initial issuance and delivery of the Certificates, would have caused any of the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended from time to time (the "Code");

(b) They will not take any action or omit to take any action, which action or omission, if reasonably expected on the date of initial issuance and delivery of the Certificates, would result in loss of exclusion from gross income for purposes of federal income taxation under Section 103(a) of the Code, of interest paid with respect to the Certificates;

(c) They will not take any action or omit to take any action, which action or omission if reasonably expected on the date of initial issuance and delivery of the Certificates, would have caused any of such Certificates to be "private activity bonds" within the meaning of Section 141 of the Code;

(d) The Water District will comply with the Rebate Certificate as a source of guidance for achieving compliance with the Code; and

(e) In order to maintain the exclusion from gross income for purposes of federal income taxation of interest paid with respect to the Certificates, the Water District shall comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code.

The covenants of the Seller and the Water District contained in this Section 7.07 shall survive the payment or defeasance of this Agreement pursuant to Section 14.02 hereof.

Section 7.07. Rebate Fund; Rebate of Excess Investment Earnings to the United States. Unless exempt from the rebate requirements of the Code as set forth in a tax certificate of the Water District, there will be created by the Director of Finance as a separate fund distinct from all other funds and accounts held by the Director of Finance under this Agreement, the "Rebate Fund." The Director of Finance shall, in accordance with written directions of the Water District Representative received by the Director of Finance, deposit moneys into the Rebate Fund. Moneys on deposit in the Rebate Fund shall be applied only to payments made to the United States of America, to the extent such payments are required by the Rebate Certificate.

Section 7.08. Accounting Records and Financial Statements. The Director of Finance shall at all times keep, or cause to be kept, proper books of record and account prepared in accordance with customary standards of municipal standards, in which complete and accurate entries shall be made of all transactions relating to the receipt, investment, disbursement, allocation and application of the proceeds of the Certificates, the Installment Payments and all funds and accounts established pursuant to this Agreement. Such books of record and account shall specify the account or fund to which each investment (or portion thereof) held by the Director of Finance is to be allocated and shall set forth, in the case of each Permitted Investment (a) its purchase price, (b) identifying information, including par amount, coupon rate and payment

dates, (c) the amount received at maturity or sale price thereof, as the case may be, (d) the amounts and dates of any payments made with respect thereto, and (e) such documentation as is required to be obtained by the Director of Finance as evidence to establish the market value of such Permitted Investment.

Such books of record and account shall be available for inspection by any Certificate Owner, or its agent or representative duly authorized in writing upon reasonable notice, at reasonable hours and under reasonable circumstances.

ARTICLE VIII
PAYING AGENT AND REGISTRAR; REPLACEMENT

Section 8.01. Paying Agent and Registrar. Seller and the Water District hereby appoint the Director of Finance to act as Paying Agent and Registrar hereunder.

Section 8.02. Removal of Paying Agent and Registrar. The Director of Finance may by written agreement between the Water District and USDA, or its assigns, at any time and for any reason remove the Director of Finance and any successor thereto, in his or her role as paying agent and registrar hereunder, and shall there upon appoint a successor or successors thereto, but any such successor shall be a bank or trust company doing business and having an office in Los Angeles or San Francisco, California, having a combined capital (exclusive of borrowed capital) and surplus of at least Five Million Dollars (\$5,000,000), and be subject to supervision or examination by federal or state authority. 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 purposes of this Section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus set forth in its most recent report of condition so published.

Section 8.03. Protection and Rights of the Director of Finance. The Director of Finance shall be protected and shall incur no liability in acting, refraining from acting, or proceeding in good faith upon any resolution, opinion, notice, telegram, telecopy, request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition or other paper or document which it shall in good faith believe to be genuine and to have been authorized or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of this Agreement, and the Director of Finance shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such instrument. The Director of Finance shall not be bound to recognize any person as an Owner of any Certificate or to take any action at his or her request unless such Certificate shall be deposited with the Director of Finance or satisfactory evidence of the ownership of such Certificate shall be furnished to the Director of Finance.

In addition to the foregoing protection and rights afforded the Director of Finance, the following provisions further limit the Director of Finance's undertakings hereunder:

(a) Except during the continuance of an Event of Default, the Director of Finance undertakes to perform such duties and only such duties as are specifically set forth in this Agreement, and no implied covenants or obligations shall be read into this Agreement against the Director of Finance;

(b) In case an Event of Default has occurred and is continuing, the Director of Finance shall exercise such of the rights and powers vested in it by this Agreement, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs;

(c) The Director of Finance shall not be liable for any error of judgment made in good faith by a responsible officer of the Director of Finance, unless it shall be proved that the Director of Finance was negligent in ascertaining the pertinent facts;

ARTICLE IX MODIFICATION OR AMENDMENT OF AGREEMENTS

Section 9.01. Amendments Permitted. This Agreement and the Installment Sale Agreement and the rights and obligations of the parties hereto or thereto may be modified or amended at any time by a supplemental agreement which shall become effective when the written consents of the Owners of at least sixty percent (60%) in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in Section 9.03 hereof, shall have been filed with the Director of Finance. No such modification or amendment shall (i) extend or have the effect of extending the fixed maturity date of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of interest or reducing the amount of principal thereof or reducing any premium payable upon the prepayment thereof, without the express consent of the Owner of such Certificate, or (ii) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of this Agreement or the Installment Sale Agreement, or (iii) modify any of the rights or obligations of the Director of Finance without its written assent thereto. Any such supplemental agreement shall become effective as provided in Section 9.02 hereof.

This Agreement and the Installment Sale Agreement and the rights and obligations of the parties hereto or thereto may be modified or amended at any time by a supplemental agreement, without the consent of any such Owners, but only to the extent permitted by law and only (i) to cure, correct or supplement any ambiguous or defective provision contained herein or therein, or (ii) in regard to questions arising hereunder or thereunder, as the parties hereto or thereto may deem necessary or desirable, and which shall not adversely affect the interests of the Owners of the Certificates. Any such supplemental agreement shall become effective upon execution and delivery by the parties hereto or thereto, as the case may be.

Section 9.02. Procedure for Amendment with Written Consent of Certificate Owners. If the consent of the Owners of the Certificates is required pursuant to Section 9.01 hereof, this Agreement or the Installment Sale Agreement may be amended by a supplemental agreement only upon compliance with the provisions of this Section. A copy of the supplemental agreement, together with a request to the Certificate Owners for their consent thereto, shall be mailed by the Water District to each Owner of a Certificate at his address as set forth on the Certificate registration books maintained pursuant to Section 2.12 hereof, but failure to mail copies of any such supplemental agreement and request shall not affect the validity of the supplemental agreement when assented to as in this Section provided.

Such a supplemental agreement shall not become effective unless there shall be filed with the Director of Finance the written consents of the Owners of at least sixty percent (60%) in aggregate principal amount of the Certificates then Outstanding (exclusive of Certificates disqualified as provided in Section 9.03 hereof) and a notice shall have been mailed as hereinafter in this Section provided. Each such consent shall be effective only if accompanied by proof of ownership of the Certificates for which such consent is given, which proof shall be such as is permitted by Section 2.11 hereof. Any such consent shall be binding upon the Owner of the Certificate giving such consent and on any subsequent Owner of the same Certificate or a replacement thereof (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Water District prior to the date when the notice hereinafter in this Section provided for has been given.

After the Owners of the required percentage of Certificates shall have filed their consents to such a supplemental agreement, the Water District shall mail a notice to the Owners of the Certificates in the manner previously provided in this Section for the mailing of the supplemental agreement, stating in substance that the supplemental agreement has been consented to by the Owners of the required percentage of Certificates and will be effective as provided in this Section (but failure to mail copies of said notice shall not affect the validity of the supplemental agreement or consents thereto). Such a supplemental agreement shall become effective upon the mailing by the Water District of the notice above last-mentioned, and the supplemental agreement shall be deemed conclusively binding upon the parties hereto and the Owners of all Certificates at the expiration of sixty (60) days after such mailing, except in the event of a final decree of a court of competent jurisdiction setting aside such consent in a legal action or equitable proceeding for such purpose commenced within such sixty (60)-day period. A record, consisting of the documents required by this Section to be mailed by the Water District and a certificate of the Water District as to its compliance with the requirements of this Section shall be proof of the matters therein stated until the contrary is proved.

Section 9.03. Disqualified Certificates. Certificates owned or held by or for the account of the Water District or by any person directly or indirectly controlled by, or under direct or indirect common control with the Water District (except any Certificates held in any pension or retirement fund), shall not be deemed outstanding for the purpose of any vote, consent, waiver or other action or any determination of Outstanding Certificates provided for in this Agreement,

and shall not be entitled to vote upon, consent to, or take any other action provided for in this Agreement.

The Water District may adopt appropriate regulations to require each Certificate Owner, before his consent provided for in this Article X shall be deemed effective, to reveal if the Certificates as to which such consent is given are disqualified as provided in this Section.

Section 9.04. Effect of Supplemental Agreement. From and after the time any supplemental agreement becomes effective pursuant to this Article X, this Agreement or the Installment Sale Agreement, as the case may be, shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties hereto or thereto and all Owners of Certificates Outstanding shall thereafter be determined, exercised and enforced hereunder or thereunder subject in all respects according to such modification and amendment, and all the terms and conditions of any such supplemental agreement shall be deemed to be part of the terms and conditions of this Agreement or the Installment Sale Agreement, as the case may be, for any and all purposes.

Section 9.05. Endorsement or Replacement of Certificates Delivered After Amendments. The Water District may determine that Certificates delivered after the effective date of any action taken as provided in this Article X shall bear a notation by endorsement or otherwise, in form approved by the Water District, as to such action. In that case, upon demand of the Owner of any Outstanding Certificate at such effective date and presentation of his Certificate at the Principal Office of the Director of Finance a suitable notation shall be made on such Certificate. The Water District may determine that new Certificates, so modified as in the opinion of the Water District is necessary to conform with action taken pursuant to this Article X, shall be prepared, executed and delivered. In that case, upon demand of the Director of Finance on the Owner of any Outstanding Certificate, such Owner shall surrender such Outstanding Certificate at said office of the Director of Finance and it shall be exchanged for a new Certificate of the same character upon surrender of such Certificate, without cost to the Owner.

Section 9.06. Amendatory Endorsement of Certificates. The provisions of this Article X shall not prevent any Certificate Owner from accepting any amendment as to the particular Certificates held by him, provided that due notification thereof is made on such Certificates.

ARTICLE X COVENANTS; NOTICES

Section 10.01. Compliance with and Enforcement of Installment Sale Agreement. The Water District covenants and agrees with the Owners of the Certificates to perform all obligations and duties imposed on it under the Installment Sale Agreement. The Seller covenants and agrees with the Owners of the Certificates to perform all obligations and duties imposed on it under the Installment Sale Agreement.

The Water District will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Installment Sale Agreement by the Seller.

Section 10.02. Payment of Taxes. The Water District will pay or cause to be paid all taxes, assessments and other governmental charges, if any, that may be levied, assessed or charged upon the Project, or any part thereof, promptly as and when the same shall become due and payable. The Water District will not suffer the Project, or any part thereof, to be sold for any taxes, assessments or other charges whatsoever, or to be forfeited therefor.

Section 10.03. Observance of Laws and Regulations. The Water District will well and truly keep and observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it by contract, or prescribed by any law of the United States of America, or of the State of California, or by any officer, board or commission having jurisdiction or control as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the Water District, to the end that such rights, privileges and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

Section 10.04. Prosecution and Defense of Suits. The Water District shall promptly, upon request of the Director of Finance, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Project, whether now existing or hereafter developing, and shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose, and shall indemnify and save the Director of Finance, the Seller and the Certificate Owners harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceedings.

Section 10.05. Recordation and Filing. The Water District shall record and file the Installment Sale Agreement and all such documents as may be required by law, all in such manner, at such times and in such places as may be required by law, in order fully to preserve, protect and perfect the security of the Certificate Owners.

Section 10.06. Further Assurances. The Seller and the Water District will 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 Agreement and for better assuring and confirming unto the Owners of the Certificates the rights and benefits provided herein.

ARTICLE XI
LIMITATION OF LIABILITY

Section 11.01. Limited Liability of Water District. Except for the payment of Installment Payments and Prepayments when due in accordance with the Installment Sale Agreement and the performance of the other covenants and agreements of the Water District contained in said agreement and this Agreement, the Water District shall have no obligation or liability to any of the other parties or to the Owners of the Certificates with respect to this Agreement or the terms, execution, delivery or transfer of the Certificates.

Anything in this Agreement, the Installment Sale Agreement or the Certificates to the contrary notwithstanding, it is understood that no recourse shall be had against the Seller for the payment of the principal of or interest or premium on the Certificates or for any claim based on or in respect of this Agreement or the Certificates.

Section 11.02. Limitation of Rights to Parties and Certificate Owners. Nothing in this Agreement or in the Certificates expressed or implied is intended or shall be construed to give any person other than the Water District, the Seller and the Owners of the Certificates any legal or equitable right, remedy or claim under or in respect to this Agreement or any covenant, condition or provision hereof, and all such covenants, conditions and provisions are and shall be for the sole and exclusive benefit of the Water District, the Seller and the Owners of the Certificates.

ARTICLE XII
ASSIGNMENT; EVENTS OF DEFAULT AND REMEDIES

Section 12.01. Assignment of Rights. Pursuant to Section 5.01 hereof, the Seller has transferred, assigned and set over to the USDA or its assigns all of the Seller's rights, title and interest under the Installment Sale Agreement (excepting only the Seller's rights, under Sections 7.3 and 9.4 thereof), including without limitation the Seller's right to exercise such rights and remedies conferred on the Seller pursuant to the Installment Sale Agreement upon the occurrence of an Event of Default or as may be necessary or convenient (i) to enforce payment of the Installment Payments, Prepayments and any other amounts required to be deposited in the Installment Payment Fund or the Insurance and Condemnation Fund, and (ii) otherwise to protect the interests of the Seller or the Director of Finance in an Event of Default.

Section 12.02. Remedies. If an Event of Default shall happen, then and in each and every such case during the continuance of such Event of Default, the USDA, as assignee of the Seller, may exercise or shall exercise, as the case may be, any and all remedies available pursuant to law or granted pursuant to the Installment Sale Agreement.

Section 12.03. Application of Funds. Upon an Event of Default, USDA shall select a third party financial institution to hold and administer all funds and accounts held hereunder. All moneys held pursuant to any right given or action taken under the provisions of this Article XII or of Article IX of the Installment Sale Agreement and all moneys on deposit in

Execution Copy

the funds and accounts held hereunder (other than the Rebate Fund) shall be applied in the following order without the need to present the Certificates and noting thereon of the payment, if only partially paid, or upon the surrender thereof, if fully paid:

First, to the payment of the fees, costs and expenses of the Director of Finance and, thereafter, of the Certificate Owners in declaring such Event of Default, including reasonable compensation to its or their agents, attorneys and counsel.

Second, to the payment of the whole amount then owing and unpaid with respect to the Certificates for principal and interest, with interest on the overdue principal and installments of interest at the rate or rates specified in the respective Certificates (but such interest on overdue installments of interest shall be paid only to the extent funds are available therefor following payment of principal and interest on overdue principal, as aforesaid), and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid with respect to the Certificates, then to the payment of such principal and interest, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

Section 12.04. Institution of Legal Proceedings. If one or more Events of Default shall happen and be continuing, the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, may proceed to protect or enforce their rights by a suit in equity or an action at law, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Director of Finance shall deem most effectual in support of any of its rights or duties hereunder.

Section 12.05. Non-waiver. Nothing in this Article XII or in any other provision of this Agreement, or in the Certificates, shall affect or impair the obligation of the Water District, which is absolute and unconditional subject to Section 4.6 of the Installment Sale Agreement, to pay or prepay the Installment Payments as provided in the Installment Sale Agreement, or affect or impair the right of action, which is also absolute and unconditional, of the Certificate Owners to institute suit to enforce such payment. No delay or omission of the Director of Finance or of any Owner of any of the Certificates to exercise any right or power arising upon the happening of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein, and every power and remedy given by this Article XII to the Director of Finance or to the Owners of the Certificates may be exercised from time to time and as often as shall be deemed expedient by the Certificate Owners.

Section 12.06. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Certificate Owners is intended to be exclusive of any other remedy, and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise.

Section 12.07. Agreement to Pay Attorneys' Fees and Expenses. In the event any party to this Agreement should default under any of the provisions hereof and a non-

defaulting 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 or parties the reasonable fees of such attorneys and such other expenses so incurred by the nondefaulting party or parties.

ARTICLE XIII
MISCELLANEOUS

Section 13.01. Filing. The Water District shall be responsible for the filing of any supplemental instruments or documents of further assurance as may be required by law in order to perfect the security interests created by this Agreement, and shall hold all financing documents and transfer the same, as required by the provisions of this Agreement.

Section 13.02. Records. The Director of Finance shall keep complete and accurate records of all moneys received and disbursed under this Agreement, which shall be available for inspection by the Water District, the Seller and any Owner, or the agent of any of them, at any time during regular business hours upon written request.

Section 13.03. Notices. All written notices to be given under this Agreement shall be given by 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 parties in writing from time to time. Notice shall be effective upon deposit in the United States mail, postage prepaid or, in the case of personal delivery, upon delivery to the address set forth below:

If to the Water District: Mission Springs Water District
66575 Second Street
Desert Hot Springs, CA 92240
Attention: General Manager

If to the Seller: Mission Springs Water District Improvement Corporation
66575 Second Street
Desert Hot Springs, CA 92440
Attention: President

Section 13.04. Governing Law. This Agreement shall be construed and governed in accordance with the laws of the State of California.

Section 13.05. Binding Effect; Successors. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns. Whenever in this Agreement either the Seller or the Water District is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Agreement contained by or on behalf of the Seller or the Water District shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Execution Copy

Section 13.06. Execution in Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same agreement.

Section 13.07. Headings. 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, and the words "herein," "hereof," "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or subdivision hereof.

Section 13.08. Limitation of Rights to Parties and Certificate Owners. Nothing in this Agreement or in the Certificates expressed or implied is intended or shall be construed to give to any person other than the Seller, the Water District, and the Owners of the Certificates any legal or equitable right, remedy or claim under or in respect of this Agreement or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Seller, the Water District, and the Owners of the Certificates delivered hereunder.

Section 13.09. Waiver of Notice. Whenever in this Agreement the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the party entitled to receive such notice, and in any case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

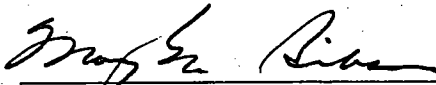
Section 13.10. Severability of Invalid Provisions. In case any one or more of the provisions contained in this Agreement or in the Certificates shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such invalidity, illegality, or unenforceability shall not affect any 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 parties hereto hereby declare that they would have entered into this Agreement and each and every section, paragraph, sentence, clause or phrase hereof and authorized the execution and delivery of the Certificates pursuant hereto 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 13.11. Inapplicability of Sections 7.07 and 7.08 Under Certain Circumstances. Notwithstanding any other provision of this Agreement, if the Water District shall receive an opinion of nationally recognized bond counsel that any action required by Sections 7.07 and 7.08 hereof is no longer required, or that some further action is required to maintain the exclusion from gross income for federal income tax purposes of interest on the Certificates, the Water District may rely conclusively on such opinion as to compliance with the requirements of Section 7.07 or 7.08, as applicable, and the covenants contained therein shall be deemed to be modified to that extent.

Execution Copy

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date and year first herein above written.

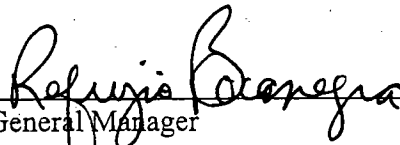
MISSION SPRINGS WATER DISTRICT
IMPROVEMENT CORPORATION

By: 
President

ATTEST:


Secretary

MISSION SPRINGS WATER DISTRICT

By: 
General Manager

ATTEST:


Secretary

EXHIBIT A

(FORM OF CERTIFICATE OF PARTICIPATION)

THIS CERTIFICATE IS SUBJECT TO CERTAIN TRANSFER RESTRICTIONS
AS SET FORTH IN SECTION 2.08 OF THE ADMINISTRATION AND
ASSIGNMENT AGREEMENT

MISSION SPRINGS WATER DISTRICT
CERTIFICATE OF PARTICIPATION
(2001 FINANCING PROJECT, SERIES A)

Evidencing the assignment by
the Mission Springs Water District Improvement Corporation
to the owner hereof of its right to
receive Installment Payments to be Made by

MISSION SPRINGS WATER DISTRICT

As the Purchase Price for Certain Property
Pursuant to an Installment Sale Agreement with

MISSION SPRINGS WATER DISTRICT IMPROVEMENT CORPORATION

No. R-1

\$

RATE OF INTEREST: 4.50%

MATURITY DATE:

ORIGINAL ISSUE DATE:

REGISTERED OWNER: UNITED STATES OF AMERICA

PRINCIPAL AMOUNT:

THIS IS TO CERTIFY THAT the Registered Owner identified above, or registered assigns, as the registered owner of this Certificate of Participation ("this Certificate"), is the owner by assignment of the right to receive certain Installment Payments and prepayments thereof under and defined in that certain Installment Sale Agreement (the "Installment Sale Agreement") dated February 1, 2001, by and between Mission Springs Water District Improvement Corporation, a nonprofit public benefit corporation organized and existing under

Execution Copy

the Constitution and laws of the State of California (the "Seller"), and Mission Springs Water District, a public agency organized and existing under the Constitution and laws of the State of California (the "Water District"), which Installment Payments and prepayments and certain other rights and interests under the Installment Sale Agreement have been assigned to the United States Department of Agriculture - Rural Development and its assigns.

The Registered Owner of this Certificate is entitled to receive, subject to the terms of the Installment Sale Agreement and the Administration and Assignment Agreement defined below, on the Maturity Date specified above, the Principal Amount specified above, representing a portion of the Installment Payment designated as and comprising principal coming due on such date, and to receive on August 1, 2001, and semiannually thereafter on August 1 and February 1 of each year (the "Payment Dates"), until payment in full of said Principal Amount, the Registered Owner's proportionate share of the Installment Payments designated as and comprising interest coming due during the six months immediately preceding each of the Payment Dates; provided that interest with respect hereto shall be payable from the Payment Date next preceding the date of execution of this Certificate (i) unless this Certificate is executed on a Payment Date, in which event interest shall be payable from such Payment Date, or (ii) unless this Certificate is executed between the close of business on the fifteenth (15th) day of the month preceding a Payment Date and such Payment Date, in which event interest shall be payable from such Payment Date, or (iii) unless this Certificate is executed on or prior to July 15, 2001, in which event interest shall be payable from the Original Issue Date specified above. Said proportionate share of the portion of the Installment Payments designated as and comprising interest is the result of the multiplication of the Principal Amount specified above by the per annum Rate of Interest specified above. Such interest amounts are payable in lawful money of the United States of America. So long as this Certificate is owned by the United States Department of Agriculture - Rural Development, payment of interest and principal with respect to this Certificate will be made through the Pre-Authorized Debt Payment Plan. Otherwise, interest with respect to this Certificate shall be paid by check mailed on the Payment Date by first class mail by the Director of Finance to the Registered Owner hereof at such Owner's address as it appears on the registration books of the Director of Finance or at such other address as such Owner may have filed with the Director of Finance for that purpose as of the fifteenth (15th) day of the month preceding the Payment Date, in a manner which is reasonably calculated to be received by the Owner on each Payment Date (provided that the Installment Payments have been paid in a timely manner under the Installment Sale Agreement) whether or not such day is a business day (the "Record Date"), or if the Registered Owner of this Certificate is the owner of \$200,000 or more in aggregate principal amount of Certificates, by wire transfer to an account in the United States of America specified by the Registered Owner in a written notice requesting payment by wire transfer delivered to the Director of Finance not later than the Record Date preceding a Payment Date. The Principal Amount specified above is payable in lawful money of the United States of America. So long as this Certificate is owned by the United States Department of Agriculture - Rural Development, principal with respect to this Certificate will be paid without the necessity for surrender of this Certificate to the Director of Finance. Otherwise, principal with respect to this Certificate will be payable upon surrender hereof at the principal office of the Director of Finance. The amount of interest component payable on each Payment Date during a fiscal year with respect to the Certificates shall be calculated by multiplying the portion of the Installment Payments designated as principal by 4.50% and by the dividing such

Execution Copy

amount by two (2). Such amount of interest shall be payable on each Interest Payment Date during such Fiscal Year.

This Certificate has been executed and delivered by the Seller pursuant to the Administration and Assignment Agreement by and among the Seller and the Water District, dated February 1, 2001 (the "Administration and Assignment Agreement"). The Water District is authorized to enter into the Installment Sale Agreement and the Administration and Assignment Agreement under the Constitution and laws of the State of California. Reference is hereby made to the Installment Sale Agreement and the Administration and Assignment Agreement (copies of which are on file at the aforementioned principal office of the Director of Finance) for a description of the terms on which the Certificates are delivered, the rights thereunder of the Registered Owners of the Certificates, and the rights and obligations of the Water District under the Installment Sale Agreement, to all of the provisions of which Installment Sale Agreement and Administration and Assignment Agreement the Registered Owner of this Certificate, by acceptance hereof, assents and agrees.

The obligation of the Water District to make Installment Payments under the Installment Sale Agreement is a special obligation secured by a pledge of and charge and lien upon the Net Water Revenues (as such term is defined in the Installment Sale Agreement) all as provided in the Installment Sale Agreement. The obligation of the Water District to pay the Installment Payments does not constitute an obligation of the Water District for which the Water District is obligated to levy or pledge any form of taxation or for which the Water District will levy or pledge any form of taxation. The obligation of the Water District to make Installment Payments under the Installment Sale Agreement does not constitute a debt of the Water District or the State of California or any of its political subdivisions, and does not constitute an indebtedness within the meaning of any constitutional or statutory debt limit or restriction.

The Water District may issue or incur Parity Debt (as defined in the Installment Sale Agreement) in any fiscal year in accordance with the Installment Sale Agreement.

To the extent and in the manner permitted by the terms of the Administration and Assignment Agreement, the provisions of the Administration and Assignment Agreement may be amended by the parties thereto with the written consent of the owners of at least sixty percent (60%) in aggregate principal amount of the Certificates then outstanding, and may be amended without such consent under certain circumstances but in no event such that the interests of the Registered Owners of the Certificates are adversely affected. No such amendment may impair the right of any Registered Owner to receive in any case the Registered Owner's proportionate share of any Installment Payment or any Prepayment thereof, in accordance with the Registered Owner's Certificate, without the Registered Owner's express consent.

This Certificate is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the principal office of the Director of Finance, but only in the manner, subject to the limitations and upon payment of the charges provided in the Administration and Assignment Agreement, and upon surrender and cancellation of this Certificate. Upon such transfer a new Certificate or Certificates, of authorized denomination or denominations, for the same aggregate principal amount and having the same interest rate will be

Execution Copy

delivered to the transferee in exchange for this Certificate. The Director of Finance shall not be required to transfer or exchange Certificates after the fifteenth day of the month next preceding any Payment Date or any Certificate selected for prepayment. This Certificate may be exchanged at the principal office of the Director of Finance for a like aggregate amount of Certificates of other authorized denominations and of the same maturity, all in accordance with the Administration and Assignment Agreement. The Certificates shall be delivered in the form of fully registered Certificates without coupons in the denominations set forth in the Administration and Assignment Agreement.

The Water District and the Seller may treat the Registered Owner hereof as the absolute owner hereof for all purposes, whether or not this Certificate shall be overdue, and the Water District and the Seller shall not be affected by any notice to the contrary.

The Certificates are subject to mandatory sinking fund prepayment on each Payment Date on and after August 1, 2001, by lot, at a prepayment price equal to the principal amount thereof, without premium, together with accrued interest to the date of prepayment, from the principal component of the Installment Payments to be made by the Water District pursuant to the Installment Sale Agreement in the principal amounts and on the dates to be determined as set forth in Exhibit B to the Administration and Assignment Agreement.

Notwithstanding any provisions of the Administration and Assignment Agreement or this Certificate, sinking fund prepayment shall occur without the necessity of giving notice or the presentation of this Certificate.

The Certificates are also subject, at the option of the Water District, to prepayment in whole or in part on any date, from any available source of funds, prior to their stated maturity, in inverse order of maturity and by lot within a maturity, so that the annual debt service for all years in which Certificates mature following such prepayment is as nearly equal as practicable, at a prepayment price equal to the principal amount to be prepaid plus accrued interest to the date fixed for prepayment, without premium.

If the Certificates are prepaid in part, other than pursuant to the mandatory sinking fund prepayment provisions of the Administration and Assignment Agreement, the principal amount of the Certificates to be prepaid on each of the mandatory sinking fund prepayment dates set forth in the Administration and Assignment Agreement shall be modified to correspond to the modified principal component of the Installment Payment due on such prepayment date.

Whenever provision is made for the prepayment of Certificates and less than all outstanding Certificates are called for prepayment, the Director of Finance shall select Certificates for prepayment, from the outstanding Certificates not previously called for prepayment, such that, as directed by the Water District, as nearly as practicable, approximately equal principal and interest payments prevail with respect to the Certificates in each fiscal year following such prepayment. The Director of Finance shall select Certificates for prepayment by lot within a maturity in any manner which the Director of Finance shall in its sole discretion deem appropriate and fair.

Execution Copy

As provided in the Administration and Assignment Agreement, notice of prepayment shall be mailed, first class mail postage prepaid, not less than thirty (30) nor more than sixty (60) days before the prepayment date, to the Registered Owner of this Certificate, but neither failure to mail such notice nor any defect in the notice so mailed shall affect the sufficiency of the proceedings for prepayment.

If this Certificate is called for prepayment and its payment is duly provided for, as specified in the Administration and Assignment Agreement, interest shall cease to accrue hereon from and after the date fixed for prepayment.

IN WITNESS WHEREOF, this Certificate evidencing the assignment of rights as set forth in the Administration and Assignment Agreement has been executed and delivered by the Mission Springs Water District Improvement Corporation as of the date set forth below.

Dated:

MISSION SPRINGS WATER DISTRICT
IMPROVEMENT CORPORATION

By: _____
Chairman

Execution Copy

[FORM OF ASSIGNMENT]

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

PLEASE INSERT SOCIAL SECURITY OR
OTHER IDENTIFYING NUMBER OF ASSIGNEE

Please print or typewrite name and address including
postal zip code of assignee

the within Certificate, and does hereby irrevocably constitute and appoint

Attorney to transfer said
Certificate on the books of the Water District, with full power of substitution in the premises.

Dated: _____

NOTE: The signature on this
assignment must correspond with
the name(s) as written on the
face of the within Certificate
in every particular without alter-
ation or enlargement, or any change
whatsoever.

Signature Guaranteed:

NOTE: Signature(s) must be
guaranteed by an eligible guarantor.

EXHIBIT B
INTEREST AND SINKING FUND PREPAYMENT SCHEDULE

Interest payments with respect to the Certificates shall occur on each February 1 and August 1 commencing on August 1, 2001 and shall continue while the Certificates remain Outstanding. Mandatory sinking fund prepayments of principal with respect to the Certificates shall occur on each February 1 commencing February 1, 2002. The schedule of interest payments and mandatory sinking fund prepayments of principal with respect to the Certificates is as follows:

Date	Mandatory Sinking Fund Prepayment
February 1, 2002	\$ 3,300.00
February 1, 2003	\$ 3,400.00
February 1, 2004	\$ 3,500.00
February 1, 2005	\$ 3,700.00
February 1, 2006	\$ 3,900.00
February 1, 2007	\$ 4,100.00
February 1, 2008	\$ 4,200.00
February 1, 2009	\$ 4,400.00
February 1, 2010	\$ 4,600.00
February 1, 2011	\$ 4,800.00
February 1, 2012	\$ 5,100.00
February 1, 2013	\$ 5,300.00
February 1, 2014	\$ 5,500.00
February 1, 2015	\$ 5,800.00
February 1, 2016	\$ 6,000.00
February 1, 2017	\$ 6,300.00
February 1, 2018	\$ 6,600.00
February 1, 2019	\$ 6,900.00
February 1, 2020	\$ 7,200.00
February 1, 2021	\$ 7,500.00
February 1, 2022	\$ 7,900.00
February 1, 2023	\$ 8,200.00
February 1, 2024	\$ 8,600.00
February 1, 2025	\$ 8,900.00
February 1, 2026	\$ 9,400.00
February 1, 2027	\$ 9,800.00
February 1, 2028	\$10,200.00
February 1, 2029	\$10,700.00
February 1, 2030	\$11,100.00
February 1, 2031	\$11,600.00
February 1, 2032	\$12,200.00
February 1, 2033	\$12,700.00
February 1, 2034	\$13,300.00
February 1, 2035	\$13,900.00
February 1, 2036	\$14,500.00
February 1, 2037	\$15,200.00
February 1, 2038	\$15,800.00
February 1, 2039	\$16,500.00
February 1, 2040	\$17,300.00
February 1, 2041	\$18,100.00
	\$348,000.00

MISSION SPRINGS
WATER DISTRICT

EXHIBIT A

95-6005475

SCHEDULE OF INSTALLMENT PAYMENTS

Date	Interest Component	Principal Component	Total
February 1, 2001	\$ 7,830.00	\$ 3,300.00	\$11,130.00
August 1, 2002	\$ 7,755.75		\$ 7,755.75
February 1, 2003	\$ 7,755.75	\$ 3,400.00	\$11,155.75
August 1, 2003	\$ 7,679.25		\$ 7,679.25
February 1, 2004	\$ 7,679.25	\$ 3,500.00	\$11,179.25
August 1, 2004	\$ 7,600.50		\$ 7,600.50
February 1, 2005	\$ 7,600.50	\$ 3,700.00	\$11,300.50
August 1, 2005	\$ 7,517.25		\$ 7,517.25
February 1, 2006	\$ 7,517.25	\$ 3,900.00	\$11,417.25
August 1, 2006	\$ 7,429.50		\$ 7,429.50
February 1, 2007	\$ 7,429.50	\$ 4,100.00	\$11,529.50
August 1, 2007	\$ 7,337.25		\$ 7,337.25
February 1, 2008	\$ 7,337.25	\$ 4,200.00	\$11,537.25
August 1, 2008	\$ 7,242.75		\$ 7,242.75
February 1, 2009	\$ 7,242.75	\$ 4,400.00	\$11,642.75
August 1, 2009	\$ 7,143.75		\$ 7,143.75
February 1, 2010	\$ 7,143.75	\$ 4,600.00	\$11,743.75
August 1, 2010	\$ 7,040.25		\$ 7,040.25
February 1, 2011	\$ 7,040.25	\$ 4,800.00	\$11,840.25
August 1, 2011	\$ 6,932.25		\$ 6,932.25
February 1, 2012	\$ 6,932.25	\$ 5,100.00	\$12,032.25
August 1, 2012	\$ 6,817.50		\$ 6,817.50
February 1, 2013	\$ 6,817.50	\$ 5,300.00	\$12,117.50
August 1, 2013	\$ 6,698.25		\$ 6,698.25
February 1, 2014	\$ 6,698.25	\$ 5,500.00	\$12,198.25
August 1, 2014	\$ 6,574.50		\$ 6,574.50
February 1, 2015	\$ 6,574.50	\$ 5,800.00	\$12,374.50
August 1, 2015	\$ 6,444.00		\$ 6,444.00
February 1, 2016	\$ 6,444.00	\$ 6,000.00	\$12,444.00
August 1, 2016	\$ 6,309.00		\$ 6,309.00
February 1, 2017	\$ 6,309.00	\$ 6,300.00	\$12,609.00
August 1, 2017	\$ 6,167.25		\$ 6,167.25
February 1, 2018	\$ 6,167.25	\$ 6,600.00	\$12,767.25
August 1, 2018	\$ 6,018.75		\$ 6,018.75
February 1, 2019	\$ 6,018.75	\$ 6,900.00	\$12,918.75
August 1, 2019	\$ 5,863.50		\$ 5,863.50
February 1, 2020	\$ 5,863.50	\$ 7,200.00	\$13,063.50
August 1, 2020	\$ 5,701.50		\$ 5,701.50
February 1, 2021	\$ 5,701.50	\$ 7,500.00	\$13,201.50
August 1, 2021	\$ 5,532.75		\$ 5,532.75
February 1, 2022	\$ 5,532.75	\$ 7,900.00	\$13,432.75
August 1, 2022	\$ 5,355.00		\$ 5,355.00
February 1, 2023	\$ 5,355.00	\$ 8,200.00	\$13,555.00

348,000.00
344,700.00

EXHIBIT A

SCHEDULE OF INSTALLMENT PAYMENTS

Date	Interest Component	Principal Component	Total
August 1, 2023	\$ 5,170.50		\$ 5,170.50
February 1, 2024	\$ 5,170.50	\$ 8,600.00	\$13,770.50
August 1, 2024	\$ 4,977.00		\$ 4,977.00
February 1, 2025	\$ 4,977.00	\$ 8,900.00	\$13,877.00
August 1, 2025	\$ 4,776.75		\$ 4,776.75
February 1, 2026	\$ 4,776.75	\$ 9,400.00	\$14,176.75
August 1, 2026	\$ 4,565.25		\$ 4,565.25
February 1, 2027	\$ 4,565.25	\$ 9,800.00	\$14,365.25
August 1, 2027	\$ 4,344.75		\$ 4,344.75
February 1, 2028	\$ 4,344.75	\$10,200.00	\$14,544.75
August 1, 2028	\$ 4,115.25		\$ 4,115.25
February 1, 2029	\$ 4,115.25	\$10,700.00	\$14,815.25
August 1, 2029	\$ 3,874.50		\$ 3,874.50
February 1, 2030	\$ 3,874.50	\$11,100.00	\$14,974.50
August 1, 2030	\$ 3,624.75		\$ 3,624.75
February 1, 2031	\$ 3,624.75	\$11,600.00	\$15,224.75
August 1, 2031	\$ 3,363.75		\$ 3,363.75
February 1, 2032	\$ 3,363.75	\$12,200.00	\$15,563.75
August 1, 2032	\$ 3,089.25		\$ 3,089.25
February 1, 2033	\$ 3,089.25	\$12,700.00	\$15,789.25
August 1, 2033	\$ 2,803.50		\$ 2,803.50
February 1, 2034	\$ 2,803.50	\$13,300.00	\$16,103.50
August 1, 2034	\$ 2,504.25		\$ 2,504.25
February 1, 2035	\$ 2,504.25	\$13,900.00	\$16,404.25
August 1, 2035	\$ 2,191.50		\$ 2,191.50
February 1, 2036	\$ 2,191.50	\$14,500.00	\$16,691.50
August 1, 2036	\$ 1,865.25		\$ 1,865.25
February 1, 2037	\$ 1,865.25	\$15,200.00	\$17,065.25
August 1, 2037	\$ 1,523.25		\$ 1,523.25
February 1, 2038	\$ 1,523.25	\$15,800.00	\$17,323.25
August 1, 2038	\$ 1,167.75		\$ 1,167.75
February 1, 2039	\$ 1,167.75	\$16,500.00	\$17,667.75
August 1, 2039	\$ 796.50		\$ 796.50
February 1, 2040	\$ 796.50	\$17,300.00	\$18,096.50
August 1, 2040	\$ 407.25		\$ 407.25
February 1, 2041	\$ 407.25	\$ 18,100.00	\$18,507.25
		\$348,000.00	